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ARIZONA DEPARTMENT OF REVENUE

1986 Annual Report 1986 Annual Report 1986 Annual Report

ARIZONA DEPARTMENT OF REVENUE

J. Elliott Hibbs
Director

Bruce Babbitt
Governor

November 15, 1986

The Honorable Bruce Babbitt
Governor, State of Arizona
State Capitol

Dear Governor Babbitt:

On behalf of the Arizona Department of Revenue, I am pleased to submit to you and the members of the 37th State Legislature our annual report for the fiscal year ending June 30, 1986.

It is our objective, through the information provided in this report, to increase taxpayer's understanding of the Department's operation and of our continuing efforts to ensure the fair and equitable enforcement of all tax laws. We are pleased to report that during fiscal year 1985-86 a number of major achievements were made in this area, as described on the following pages.

Sincerely,

J. ELLIOTT HIBBS
Director

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ARIZONA DEPARTMENT OF REVENUE

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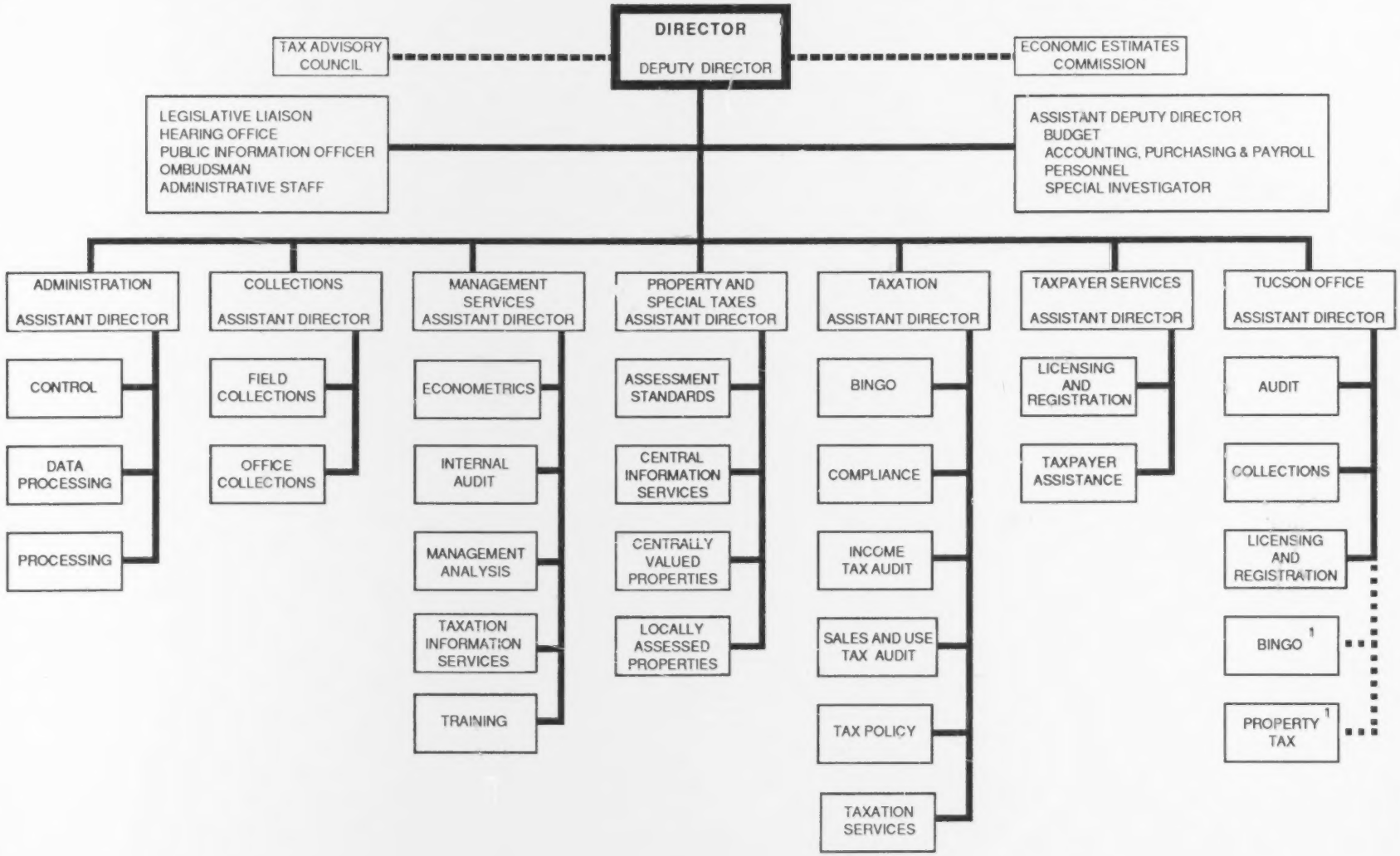
ARIZONA DEPARTMENT OF REVENUE
ORGANIZATION CHART 1985-86



[1] Managed by Phoenix Operations.

ACHIEVEMENTS

The Arizona Department of Revenue consists of seven divisions integrated to achieve a primary goal of efficient tax collection and processing. The four interdivisional areas which facilitate the accomplishment of this goal are Taxpayer Services, Document Processing, Enforcement and Property Valuation.

TAXPAYER SERVICES

Assisting the Arizona taxpayers in filing their returns and helping them resolve problems in an accurate and timely manner is a principal concern of the Department of Revenue. To increase our efficiency we made four improvements during 1985-86.

First, the Department extended its accessibility by opening a Taxpayer Services section in Tucson and by providing the office access to the On-Line Licensing system.

Second, automation of license processing enabled the Department to resolve unidentified payments quicker, to issue licenses faster in both Phoenix and Tucson, and to identify taxpayers easier who have not paid the full amount of their licensing fees.

	FY 83-84	FY 84-85	FY 85-86
Number of licenses processed	40,002	44,284	38,347
Turnaround of license applications	2-3 weeks	7 days	4.5 days

Third, the Department vastly improved forms distribution to both taxpayers and practitioners. A Forms Hotline was implemented to enable tax practitioners statewide to order and receive bulk tax forms within an average of three days; an improvement from the six day average for the previous year. The Forms Distribution Program was expanded to most banks and libraries across the State, thereby creating more accessibility for taxpayers. In fiscal year 1984-85, there were 31 distribution points; this year, 933; and the 1987 estimate exceeds 1000.

Fourth, TRACS, an automated inventory control system for taxpayers inquiries, was adopted during the fiscal year. TRACS (Taxpayer Request and Control System) enables the Department to maintain a more accurate reflection of taxpayer inquiry inventory (ie. the number of correspondence to and from a particular taxpayer) and to track where an inquiry is within the system.

Helping taxpayers in filing a return is a major concern of the Department; an equal concern is refunding taxpayers' money in a timely manner. Improvements in refund processing helped reduce correspondence and telephone inquiries. An added staff helped answer a high percentage of those inquiries. Walk-in inquiries increased by 16%, probably due to billings being mailed quicker.

	FY 83-84	FY 84-85	FY 85-86
Individual income refunds issued	609,509	639,984	670,492
Average refund turnaround (days)	84	42	21
Correspondence received	49,721[1]	80,731	57,574
Phone assistance	394,975	349,629	332,758
Walk-in taxpayers	43,382	41,327	47,967

[1] Part year total

DOCUMENT PROCESSING

Twenty four percent of the Department's budget is for tax administration which is comprised of those functions necessary to efficiently process the more than 3 million tax documents received each year and over 2.6 billion tax dollars.

Accuracy of processing is important for three reasons: first, to ensure payments are properly credited; second, to maximize interest earnings; and finally, to refund overpayments promptly. Since FY 83-84, refund turnaround has decreased by 50%, and the number of issued refunds has grown approximately 5% annually. The first refund warrants were issued January 3, 1986. The issuance of income tax refunds during the year reflected improvements in the processing flow largely attributable to the "fine-tuning" of the existing computer programs and the increased computer processor capacity and efforts to streamline the flow of documents.

The time from receipt to deposit of payments during the peak income tax season has decreased; while for non-peak season, deposit time has remained constant at 24 hours.

Other processing improvements were the reorganization of document processing and computer system enhancements. Most tax types (sales, income and withholding) experienced growth in the volume of processed documents while reducing the time it took to complete the processing. As of January 1, 1986, a new Withholding and Corporate Tax Processing unit was established which resulted in more efficient and timely processing of both tax types. Over 90% of the returns were processed within 30 days of receipt. The rewrite of the Sales Tax System which was started in January, 1985, has been completed. The major improvements which were instrumental in improving processing efficiency and quality, included an on-line Error Resolution module and an Amended Return processing module. As a result, the time required to distribute shares to the cities and counties has shortened in each of the past two years.

	FY 83-84	FY 84-85	FY 85-86
Turnaround of General Fund deposits (per 24 hour day)			
Non-peak season (maximum hours to deposit)	24	24	24
Peak season (maximum hours to deposit)	672	384	264
Average day of monthly distribution of sales tax	23rd	19th	16th
Documents processed			
Sales tax	985,251	991,489	998,575
Individual income tax	1,180,638	1,239,670	1,309,872
Corporate tax	111,596	116,062	125,286
Withholding tax	679,813	700,207	801,054
Total documents processed	2,957,298	3,047,428	3,234,787

ENFORCEMENT

The Department of Revenue has a responsibility to maintain equity among taxpayers across the State as designated by the Arizona Revised Statutes. The Statutes necessitate that everyone pay their fair share. Audits not only establish revenue rightfully due to the State, but ensure tax laws are enforced fully and fairly.

Audits are used for the major tax types: income (corporate and individual), sales, withholding, luxury, and unclaimed property. Two innovations were added in 1985-86. First, the Department purchased laptop computers for the sales tax auditors, enabling them to do a large percentage of their work in the field. Second, a new program expanded the use of federal income tax data. A match of federal adjusted gross income figures of the federal and state returns helped identify and correct more than 2200 discrepancies, which generated assessments of $1,040,000 and collections of $469,487 in 1985-86. (Refer to Table 1.)

The Department's auditors working with the federal Revenue Agents Report (RAR) have computerized much of their work. Using RAR computerization increases auditor productivity by allowing the auditor to make substantive decisions and not repetitive calculations. The process is: 1) a federal auditor adjusts a taxpayer's federal return and notifies the State's auditor of the adjustment; 2) the State's auditor decides if the adjustment is significant enough to warrant change of the State return; and 3) if change is warranted, then the computerization will readjust the State return filed by the taxpayer and issue an assessment notice. This program produced a total assessment of 10.7 million dollars and a total collection of 3.9 million dollars during fiscal year 1985-86.

Another endeavor during the fiscal year was a joint auditing experiment which involved the State and ten municipal sales tax jurisdictions. Utilizing data gathered by micro computers on audit histories and statewide audit plans from sales tax audit programs, common audit targets were identified and potential joint audits were scheduled and conducted. Fifteen audits, assessing $160,000, were completed by state sales tax auditors. Of the total, $22,726 was due to various cities and $133,650 represented State of Arizona tax liabilities. More importantly, the taxpayer was only contacted once rather than by the State and each of the ten municipalities.

Evasion of taxes is a major concern of the State. Compliance is responsible for the evaluation, investigation, and referral to the Attorney General, for prosecution of alleged criminal violations of the Arizona Revised Statutes relating to income and sales tax. During the 1986 filing season, Compliance (a separate section within the Taxation Division of the Department) recommended ten taxpayers for prosecution. Seven of those ten recommendations were due to tax evasion and the remaining three were involved in income tax refund fraud schemes.

Once an audit is completed and the taxes owed are calculated, the Department must ensure the revenue is in fact collected. Also, some taxpayers fail to file or pay at the time of filing. To ensure everyone pays their fair share of taxes, the Department must collect these monies. Revenue collection begins with the billing of taxpayers. The second step is to contact delinquent taxpayers by phone. Phone collection not only handles delinquencies, but answers questions regarding tax assessments, billings, and tax law.

If phone collection is not successful, then the responsibility is passed to field collection. Field collection then visits delinquent taxpayers; assessing the financial condition, seizing bank accounts, homes and other assets; and using last-resort collection techniques. Within field collection, there are three separate units: bankruptcy, penalty abatement, and liquor. The bankruptcy unit processes claims against taxpayers who have filed for bankruptcy. The penalty abatement unit voids the penalties for taxpayers who are unduly penalized and processes liens on property of delinquent taxpayers. The liquor unit enforces collection of sales tax through coordination with the Board of Liquor, License and Control, by filing complaints and attending hearings on revocation of liquor licenses for non-payment of taxes. (Refer to Table 1.)

	FY 83-84	FY 84-85	FY 85-86
Total phone and field collections	$34,710,173	$50,749,240	$55,281,427[1]
Number of subpoenas served	NA	1,825	2,925
Number of levies served	NA	5,755	7,165

[1] Excludes direct payments.

A successful program which the Department began in January, 1984 for the 83 tax season is the Debt Setoff Program. The program basically appropriates money from a taxpayer's refund to pay any debt the person owes to the Department of Revenue or to other state agencies. For example, an income tax refund could pay a sales tax liability within the Department or a liability with the Department of Economic Security. Since its initiation in 1984, participation by state agencies has more than doubled.

	CY 84	CY 85
Participating State agencies	7	17
Number of taxpayers	2,303	2,575
Amount recovered to agencies	$338,955	$341,866

While enforcement of the statutes for all tax types is a concern, the Department realizes most taxpayers want to pay their taxes properly, so educating the public about the laws is a major goal of the Department, as mentioned earlier. One of the best examples within the Department is the bingo public education program. Bingo publishes a quarterly newsletter, holds workshops and weekly meetings with licensees, answers phone calls daily, and even modifies forms for particular groups. The education program is a positive enforcement approach. It enhances the understanding and awareness of bingo statutes enabling the Department to prevent violations from occurring.

PROPERTY

Assessment equity and the effectiveness of assessment practices in Arizona is a major program of the Department. It has achieved a decrease in variation between counties and classes of property (such as residential, vacant land, and commercial and industrial) and between parcels of land within a particular class. Land values within a particular class have also become more uniform. Properly valued properties subsidize the undervalued classes of property. Two measurements, full cash value and

coefficient of dispersion, are used as measures to tell if uniformity and equity exist among classes of property and between parcels of land within a class. Full cash value is the legal standard to determine fair distribution of property taxes. As the percentage of full cash value at which property is appraised approaches 100, property values more closely approximate market values. Fair property taxes result from the accurate valuation of property and market value is a standard by which to measure that accuracy. The second standard, the coefficient of dispersion measures the variation from parcel to parcel in a class. As the variation nears zero, the more equitable the value among parcels becomes.

Residential property, more than any other class of property, has achieved the market value. The dispersion of residential property varies around the market value by an average of only 12%, statewide. Arizona ranks among the very best in the nation in the variation of residential property values.

The valuation of vacant land has also improved. Although the greatest strides to bringing the valuation of vacant land to market value occurred in the past, the Department continually upgrades the value. Today the coefficient of dispersion on vacant land is at approximately 29%, a substantial improvement from the 52% variance in 1981.

While residential and vacant properties experienced significant improvements, uniformity in assessing commercial and industrial property was less impressive. Valuing commercial property is more difficult due to the lack of sales data and to more variations in the types of property within this class. Due to a Department directive, all commercial property values were upgraded as reflected in the increase of the full cash value ratio and in the drop of the coefficient of dispersion. Although the coefficient of dispersion has been improving steadily, it is not as low as in other classes. The Department and county assessors are in the process of developing a new computer model to more fairly and equitably value commercial properties. It is to be implemented by 1989.

	CY 81	CY 82	CY 83	CY 84	CY 85	CY 86
Percentage of full cash value at which property is appraised						
Residential	89.6	84.4	91.0	91.3	93.1	101.5
Commercial	65.0	61.1	69.4	74.2	84.7	91.3
Vacant	54.1	56.6	86.0	82.0	86.2	95.2
Coefficient of dispersion						
Residential	17.1	14.9	13.4	12.1	11.8	11.5
Commercial	40.6	43.7	34.7	34.5	32.9	32.2
Vacant	51.6	40.3	31.8	32.4	29.2	26.1

In the fiscal year ending June 30, 1986, Arizona ranks very close to market value for all classes of property and a greater level of uniformity exists among counties.

Centrally Valued Properties has the responsibility for valuing large complex properties, such as natural resources (mines, oil and gas), utilities and railroads. Natural resource values declined 6%, reflecting a continued depression in the copper industry. Mining companies have recently been able to reduce costs substantially by renegotiating labor contracts. The value of utilities and railroads increased 17%, primarily due to construction and production of power plants.

This year saw the following important changes: rules for the valuation of producing mines and airlines were completed; new legislation amended the law by requiring toll telecommunications service to be valued separately from local service; gas and electric cooperatives discarded the formula technique for property valuation and adopted standard appraisal methods and techniques; and a comprehensive manual for valuing mining and natural resources properties was prepared and published by the Department.

	CY 84	CY 85	CY 86
Total parcels			
Locally valued	1,738,203	1,806,536	1,854,538
Centrally valued	7,557	7,029	7,072
Full cash value of parcels[1]			
Locally valued	$10,386,332,885	$11,904,294,720	$14,084,073,330
Centrally valued	$3,142,798,367	$3,285,401,894	$3,557,864,751

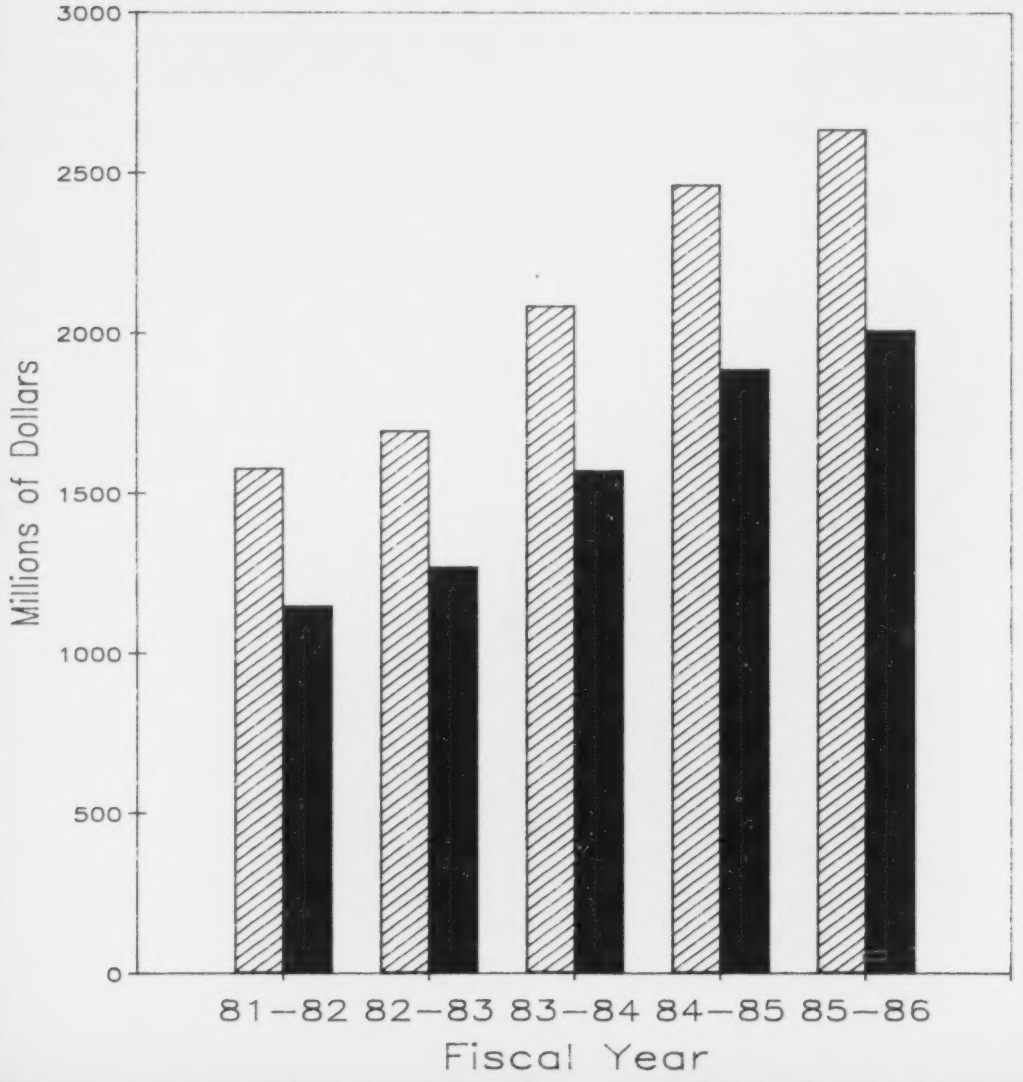
[1] Does not include Salt River Project, airline flight property or private railcar property.

TABLE 1
GROSS COLLECTIONS OF AUDIT ASSESSMENTS AND DELINQUENT TAX
1984-85 AND 1985-86

	1984-85	1985-86	% CHANGE
Phoenix Audit[1]			
Assessment Collections	$ 30,490,765	$ 30,487,343	0.01
Erroneous Refund Claims Denied	4,907,803	3,094,222	(36.95)
Sub-Total Phoenix	35,398,568	33,581,565	(5.13)
Tucson Audit			
Assessment Collections	15,789,442	13,453,599	(14.79)
Fair Share	4,402,116	1,870,314	(57.51)
Sub-Total Tucson	20,191,558	15,323,913	(24.11)
TOTAL AUDIT UNIT COLLECTIONS[2]	55,590,126	48,905,478	(12.02)
TOTAL BILLINGS	11,343,065	36,902,776[3]	225.33
Collections of Delinquent Tax			
Phone & field (Phoenix)	42,240,530	48,661,488	(15.20)
Phone & field (Tucson)	29,108,357	33,618,490	15.49
Liquor enforcement	3,057,166	696,553	(77.22)
Other collections	3,669,701	2,071,819	(43.54)
TOTAL DELINQUENT TAX COLLECTIONS	$ 78,075,754	85,048,350	8.93
TOTAL GROSS ENFORCEMENT COLLECTIONS	$145,008,945	$170,856,604	17.82

1 Includes estate and luxury taxes.
2 Some collections of the audit unit are also included in delinquent tax collections.
3 Reflects 1 1/2 years of billing and a new billing system which occurred in 1985-86.

GROSS REVENUE COLLECTED vs NET REVENUE TO STATE GENERAL FUND



LEGEND

Gross Revenue Collected

Net to General Fund

[1] Gross includes sales and income taxes distributed to the counties and cities.

TABLE 2

REVENUE SUMMARY

GROSS REVENUE COLLECTED

SOURCE	1981-82	1982-83	1983-84	1984-85	1985-86
Sales And Use Tax[1]					
Distribution Base	$ 339,161,515	$ 357,174,853	$ 412,072,737	$ 464,532,524	$ 490,395,472
Nonsnared	438,151,196	459,229,449	689,750,894	844,944,102	909,602,932
Use Tax	27,590,108	31,404,404	41,615,494	54,846,386	59,415,099
Subtotal	804,902,819	847,808,599	1,143,439,125	1,364,323,012	1,459,413,503
Income Tax					
Withholding	417,219,768	400,596,831	418,869,050	520,151,450	576,701,782
Individual	150,867,216	195,584,283	231,658,295	254,354,660	275,161,560
Corporation	122,024,168	169,039,740	207,341,166	215,436,786	213,236,463
Subtotal	690,111,152	765,220,854	857,868,511	989,942,896	1,065,099,805
Luxury Tax					
Spirituous Liquor	13,482,032	13,890,962	14,600,111	17,049,450	18,034,731
Vinous Liquor	2,967,247	3,008,457	3,663,608	6,785,029	7,563,260
Malt Liquor	6,891,524	6,813,120	7,235,455	14,102,897	15,250,805
Tobacco - All Types	42,222,950	42,467,848	41,473,630	51,386,983	51,419,032
Licensing	2,245	1,300	1,475	1,575	1,575
Subtotal	65,565,998	66,181,687	66,974,279	89,325,934	92,269,403
Estate Tax					
Estate	12,637,301	12,492,305	12,978,900	15,302,387	13,528,098
Unclaimed Property	571,366	995,848	1,271,125	1,864,695	2,531,318
Escheated Estate & Unclaimed Dividends	190,328		303,102	169,676	123,259
Subtotal	13,398,995	13,856,122	14,553,127	17,336,758	16,182,675
Bingo	276,216	388,758	415,224	412,285	600,158
Flight Property Tax	3,217,110	2,290,785	2,782,822	2,679,799	3,568,308
Private Car Tax	538,855	566,505	626,198	750,036	951,942
Nuclear Plan Assessment	300,000	968,456	573,751	410,515	412,015[4]
DEPARTMENT TOTAL	1,578,311,145	1,697,281,766	2,087,233,037	2,465,181,235	2,638,497,809
State Property Tax[2]	88,393,124	77,626,564	80,218,027	54,989,232	55,750,910
TOTAL[3]	$1,666,704,269	$1,774,908,330	$2,167,451,064	$2,520,170,467	$2,694,248,719

[1] Prior to fiscal year 85-86, sales and use tax includes refunds and charge-offs.

[2] Deposited in the general fund by counties.

[3] All revenues including those which are eventually refunded or distributed to local government; does not include municipal sales tax.

[4] Received in July 86 for fiscal year 85-86.

TABLE 3
NET REVENUE TO STATE GENERAL FUND

SOURCE	1981-82	1982-83	1983-84	1984-85	1985-86
Sales, Use & Severance Tax	$ 580,606,605	$ 615,902,961	$ 854,409,463	$1,070,242,440	$1,150,175,481
Income Tax	487,950,969	573,649,629	633,166,467	730,874,978	771,448,590
Luxury Tax	64,106,688	64,618,509	66,974,279	68,534,883	69,470,809
Estate Tax	12,569,641	13,123,774	13,568,050	16,384,988	15,442,463
Bingo	276,216	388,758	415,224	412,285[3]	264,656
Flight Property Tax	3,217,110	2,290,785	2,782,822	2,679,799	3,568,308
Private Car Tax	538,855	566,505	626,198	750,036	951,942
Nuclear Plan Assessment	300,000	968,456	573,751	410,515	412,015[2]
Department Total	1,149,566,084	1,271,509,377	1,572,516,254	1,890,289,924	2,011,734,264
State Property Tax[1]	88,393,124	77,626,564	80,218,027	54,989,232	55,750,910
TOTAL	$1,237,959,208	$1,349,135,941	$1,652,734,281	$1,945,279,156	$2,067,485,174

[1] Deposited in the State General Fund by counties.
[2] Received in July for fiscal year 85-86.
[3] Prior to FY 85-86, all of Bingo collections went to the General Fund.

SALES TAX

MAJOR FEATURES

Arizona's sales tax is a tax on the privilege of transacting business in the State. The rate ranges from .46875 of 1% to 5% depending on the type of business; most sales are taxed at a 5% rate. The total sales tax rate consists of two parts: distribution base and nonshared. Distribution base is the portion of the tax which is shared with counties and municipalities. (Refer to Tables 6 and 8.)

Two additional taxes, usually considered to be sales taxes, are use tax and rental occupancy tax. Use tax is imposed at 5% on all purchases of tangible personal property for which sales tax was not paid. Arizona businesses using items from their inventory are also subject to use tax. Rental occupancy tax is levied at 3% on real property on a long-term lease entered into before December 1, 1967.

The Maricopa County residents voted in October, 1985 to create a Maricopa County Transportation excise tax which is computed at 10% of the transaction privilege tax rates, with certain exceptions: severance tax, agriculture exemptions, rental occupancy tax, use tax, and telecommunication services excise tax. The effective date of tax is January 1, 1986. (Refer to Table 4.)

DISTRIBUTION

The distribution base portion of the sales tax is shared with municipalities and counties in the state. Twenty-five percent of the tax goes to the cities and towns based on population. Another 38.08% of the distribution base is distributed to counties by a formula based on assessed valuation and sales in each county. The remainder of the distribution base goes to the State General Fund. All other sales taxes are deposited in the State General Fund. (Refer to Tables 5, 24 and 25.)

SEVERANCE TAX

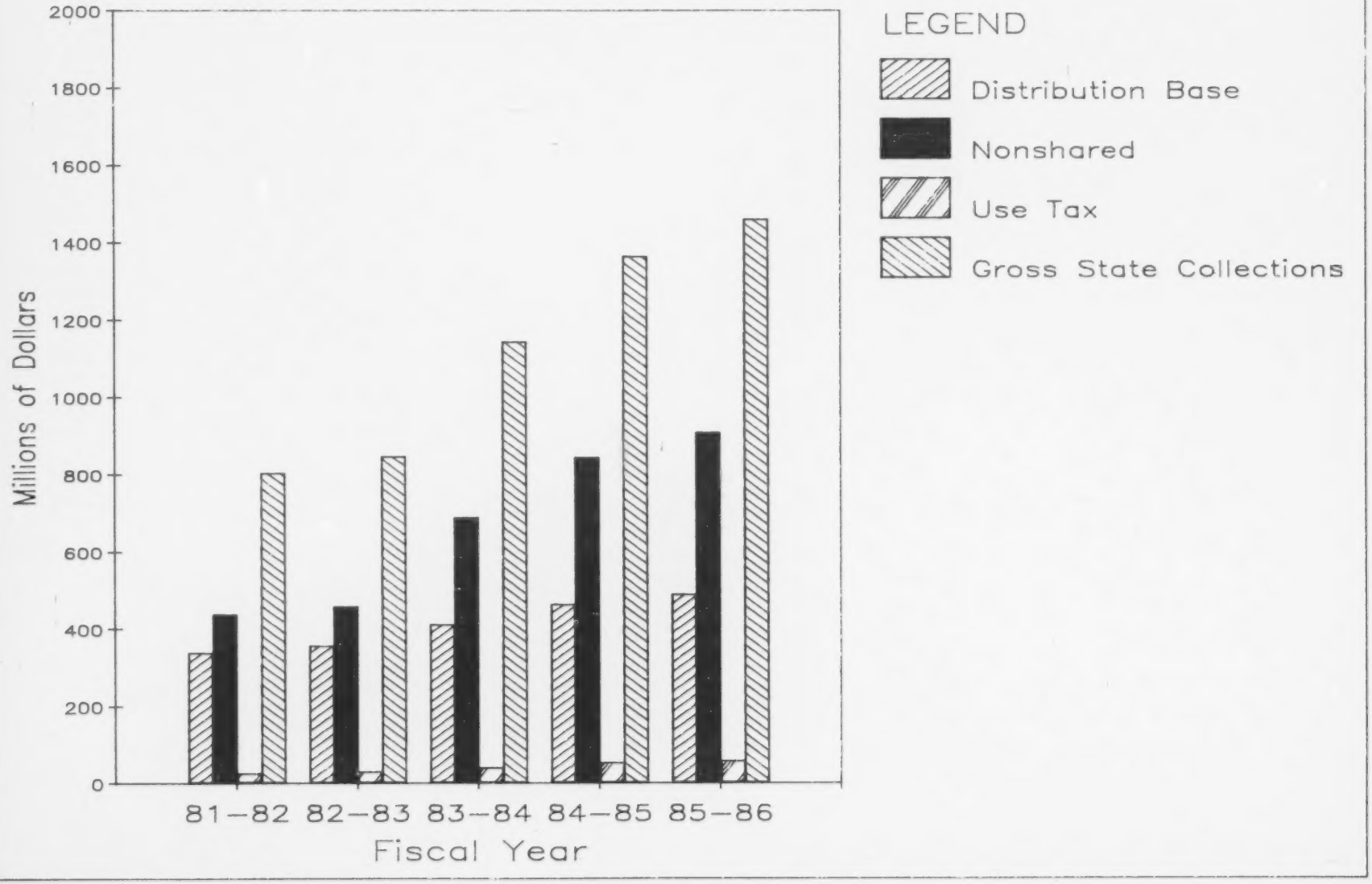
Laws of 1982, Chapter 230, repealed the sales taxes on metalliferous metals and timber products and replaced both taxes with severance taxes. (Refer to Table 6.)

The severance taxes are similar to the repealed sales taxes in administration, with the same due dates and forms. The rates are identical: 2.5% on mining, 1.5% on timbering. However, the severance tax is charged at the time of production, rather than the time of sale. In addition, the base for severance taxes on metalliferous minerals is the greater of the "weighted mineral value" (essentially the cost of extracting the minerals and delivering them to the processing site) or 50% of the old sales tax base.

MUNICIPAL SALES TAX COLLECTION PROGRAM

The Arizona Department of Revenue is authorized to collect municipal sales tax for Arizona cities and towns. The service is provided at no cost to the cities. The Department collects the local taxes and remits the amount collected to each city weekly. During 1985-86, 64 cities and towns participated in this program. (Refer to Tables 26 and 27.)

GROSS SALES, USE & SEVERANCE TAX COLLECTIONS



DISTRIBUTION OF SALES TAX COLLECTIONS

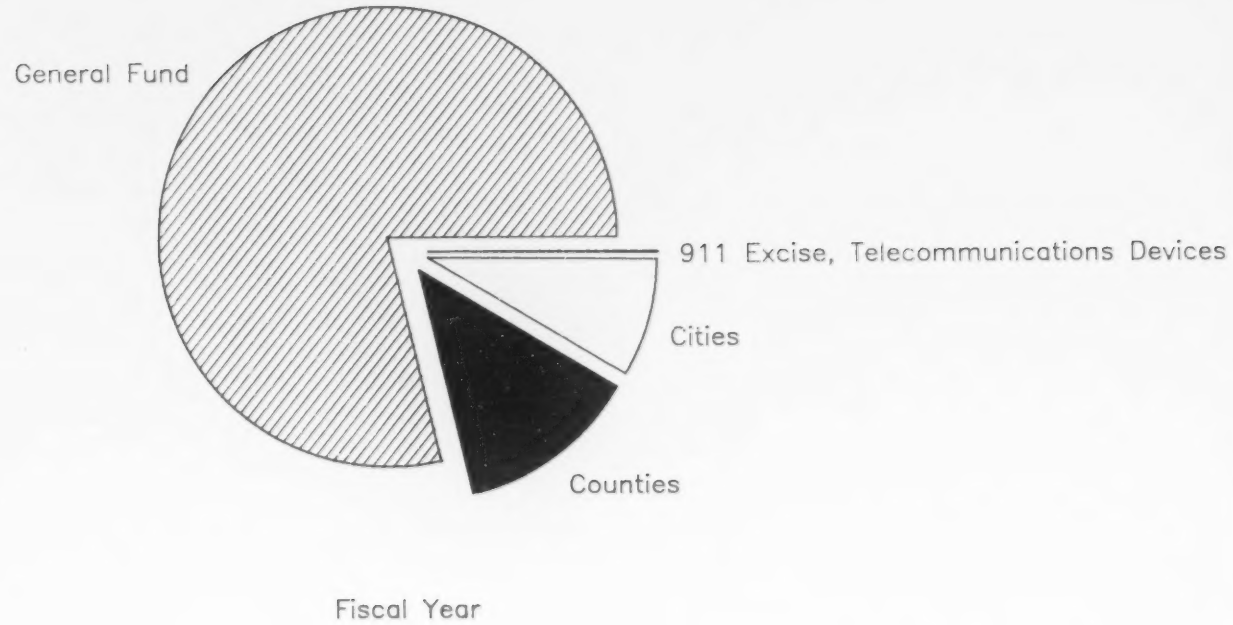


TABLE 4
GROSS SALES, USE & SEVERANCE TAX COLLECTIONS

SOURCE	1981-82	1982-93	1983-84	1984-85	1985-86
Distribution Base	$339,161,515	$357,174,853	$ 412,072,734	$ 464,532,524	$ 490,395,472
Nonshared	438,151,196	459,229,449	689,750,894	844,944,102	909,602,932
Use Tax	27,590,108	31,404,404	41,615,494	54,846,386	59,415,099
SUBTOTAL	804,902,819	847,808,706	1,143,439,125	1,364,323,012	1,459,413,503
911 Excise Tax	-----	-----	-----	1,178,370	1,282,523
Telecommunications Devices	-----	-----	-----	-----	456,638
Less: Collection Fees	-----	-----	-----	(171,270)	(- 35,667)[1]
GROSS STATE COLLECTIONS	804,902,819	847,808,706	1,143,439,125	1,365,330,112	1,461,188,331
City Sales Tax	31,132,392	34,141,550	39,237,842	45,595,426	51,527,477
Maricopa County Road Tax	-----	-----	-----	-----	37,005,284
TOTAL DEPARTMENT OF REVENUE RECEIPTS	$836,035,211	$881,950,256	$1,182,676,967	$1,410,925,538	$1,549,721,092

TABLE 5
DISTRIBUTION OF SALES TAX COLLECTIONS
1985-86

Net to State General Fund	$1,150,175,481[2]
Net to Cities	122,598,867
Net to Counties	186,674,822
Disease Control[2], 911 Excise, Telecommunications Devices	1,739,161
TOTAL GROSS COLLECTIONS	$1,461,188,331

[1] Collections fees for Fiscal Year 85-86 show a positive figure due to a reimbursement for fees overpaid by the Department in previous years.

[2] $900,000 transferred to Disease Control Fund from Sales Tax clearing account. Net to State General Fund should have been $1,149,275,481. Correction in 1986-87.

TABLE 6
SALES AND SEVERANCE TAX RATES
1985-86

TAXABLE ACTIVITIES	DISTRIBUTION BASE	NONSHARED	TOTAL TAX
1. Transporting & Towing	1%	4%	5%
2. Mining, Oil & Gas (Nonmetalliferous)	1%	2.125%	3.125%
4. Utilities	1%	4%	5%
5. Communications	1%	4%	5%
6. Railroads & Aircraft	1%	4%	5%
7/8. Private Car/Pipelines	1%	4%	5%
9. Publishing	1%	4%	5%
10. Printing	1%	4%	5%
11. Restaurants & Bars	2%	3%	5%
12. Amusements	2%	3%	5%
13. Real Property Rentals	2%	1.75%	3.75%
14. Personal Property Rentals	2%	3%	5%
15. Contracting (Mtrl. only)	1%	4%	5%
16. Feed Wholesale	.25%	.21875%	.46875%
17. Retail	2%	3%	5%
18. Advertising[1]	1%	.25%	1.25%
19. Mining Severance	2%	.5%	2.5%
20. Timbering Severance	1.2%	.3%	1.5%
24. Prime Contracts entered into prior to May 1,1983	1%	3%	4%
25. Hotel/Motel Tax	2%	2%	4%
26. Prime Contracts entered into prior to July, 1974	1%	2.75%	3.75%
27. Agricultural Equipment and Machinery[2]	0%	3%	3%

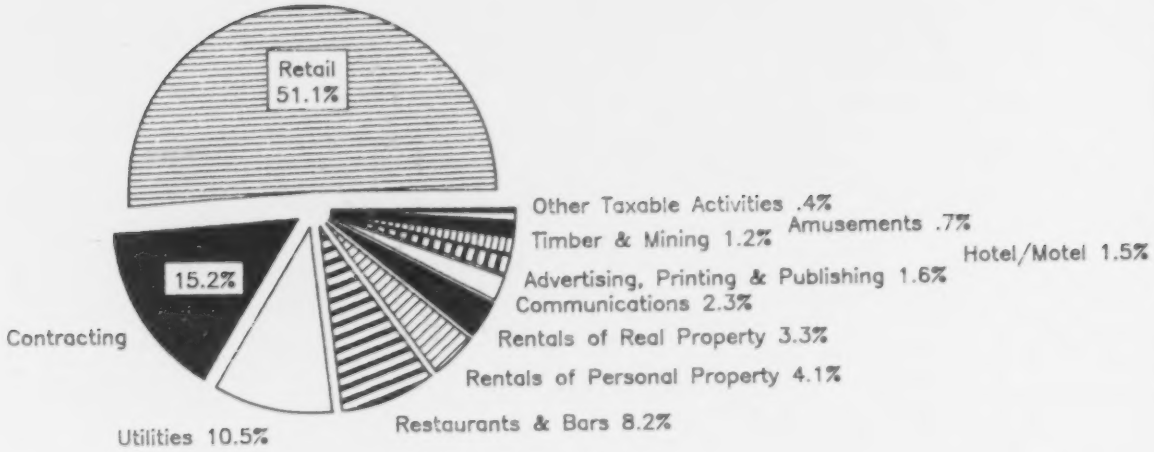
[1] Advertising was phased out on 12/31/85.
[2] Agricultural Equipment and Machinery will be phased out by 7/1/88.

TABLE 7
NET TAXABLE SALES
BY SALES TAX CLASSIFICATIONS

CLASSIFICATION	1981-82	% OF TOTAL	1982-83[3]	% OF TOTAL	1983-84	% OF TOTAL	1984-85	% OF TOTAL	1985-86	% OF TOTAL
Transporting and Towing	$ 10,528,834	0.05	$ 39,544,993	0.18	$ 24,929,381	0.10	$ 39,537,070	0.14	$ 20,081,552	0.07
Mining, Oil and Gas	1,739,765,417	8.45	701,533,137	3.26	125,398,832	0.51	97,160,930	0.35	51,905,715	0.18
Mining Severance[1]	-----	----	404,539,212	1.88	817,838,586	3.31	673,405,105	2.46	564,725,067	1.94
Mining Inventory[1]	-----	----	96,436,942	0.45	171,921,855	0.70	5,556,618	0.02	----------	----
Timbering[1]	56,331,787	0.27	28,566,640	0.13	16,412,829	0.07	40,585	0.00	----------	----
Timbering Severance[1]	-----	-----	4,943,068	0.02	14,208,996	0.06	21,991,064	0.08	25,199,054	0.09
Utilities	2,266,682,477	11.01	2,421,231,822	11.27	2,425,813,700	9.83	2,769,070,659	10.11	2,923,250,155	10.03
Communications	534,096,615	2.60	617,688,371	2.87	549,061,992	2.22	564,670,401	2.06	608,624,412	2.09
Railroads and Aircraft	38,823,556	0.19	23,519,300	0.11	59,237,824	0.24	25,865,600	0.10	32,087,646	0.11
Private Car and Pipelines	799,412	0.00	1,097,106	0.01	1,060,174	0.00	4,891,295	0.02	2,098,655	0.01
Publishing	226,195,356	1.10	174,240,373	0.81	75,924,109	0.31	70,517,036	0.26	58,505,068	0.20
Job Printing and Advertising	249,149,303	1.21	259,925,051	1.21	224,519,057	0.91	227,963,894	0.83	359,412,160	1.23
Local Advertising[2]	-----	-----	126,960,483	0.59	398,976,791	1.62	521,300,738	1.90	386,559,578	1.33
Restaurants and Bars	1,462,449,415	7.10	1,707,636,745	7.95	1,780,585,679	7.21	2,089,040,364	7.63	2,288,763,194	7.86
Amusements	184,061,602	0.89	217,340,721	1.01	215,958,607	0.87	228,011,817	0.83	208,425,050	0.72
Real Property Rentals	1,059,853,273	5.15	1,211,911,466	5.64	1,394,324,799	5.65	1,197,994,864	4.38	1,216,090,543	4.17
Personal Property Rentals	573,953,670	2.79	826,652,701	3.85	886,647,981	3.59	1,282,648,972	4.68	1,142,010,149	3.92
Contracting	2,164,763,985	10.52	2,278,537,499	10.60	3,156,115,311	12.79	3,670,815,088	13.41	4,216,936,438	14.47
Wholesale Feed	223,713,356	1.09	215,895,028	1.01	276,057,244	1.12	250,844,516	0.92	201,744,264	0.69
Retail	9,793,526,874	47.58	10,133,601,513	47.15	12,068,047,291	48.89	13,257,124,775	48.41	14,266,722,878	48.96
Hotel/Motel	-----	-----	-----	-----	274,847	-----	387,005,772	1.41	530,216,128	1.82
Agricultural Equipment[4]	-----	----	-----	----	-----	----	-----		33,490,097	0.11
TOTAL	$20,584,694,932	100.00	$21,491,802,171	100.00	$24,683,315,885	100.00	$27,385,457,163	100.00	$29,136,847,803[5]	100.00

[1] Sales tax on timbering and metalliferous mining replaced by severance tax on January 1, 1983 (see Severance Tax Section).
[2] Local advertising designated a separate class on January 1, 1983. Phased out on January 1, 1986.
[3] Due to sales tax filing changes, FY 1982-83 taxable income is not directly comparable to FY 1981-82 because collections for May 1983 represented more than a full month of taxable activity.
[4] Agricultural equipment designated a separate class on April 18, 1985 when tax rate dropped from 5% to 3%.
[5] Net taxable sales are based on sales tax receipts net of the accounting allowance to the business firms. Effective July, 1985.

SALES TAX COLLECTIONS BY CLASS



Fiscal Year 1985–86

TABLE 8
SALES TAX COLLECTIONS BY CLASS

CLASSIFICATION	DISTRIBUTION BASE	NONSHARED	TOTAL SALES TAX COLLECTIONS
Transporting & Towing	$ 202,413	$ 820,524	$ 1,022,937
Nonmetal Mining, Oil & Gas Prod.	502,721	1,261,262	1,763,983
Mining Severance	11,190,940	2,799,099	13,990,039
Timber Severance	301,806	75,141	376,947
Utilities	29,157,925	117,417,567	146,575,492
Communications	6,140,218	25,360,712	31,500,930
Railroads & Aircraft	344,889	1,558,119	1,903,008
Private Cars & Pipelines	23,189	92,754	115,943
Publishing	578,728	2,414,248	2,992,976
Printing	2,687,634	11,061,310	13,748,944
Local Advertising	3,880,211	1,708,042	5,588,253
Restaurants & Bars	45,808,685	69,203,813	115,012,498
Amusements	4,186,467	6,290,326	10,476,793
Rentals of Real Property	24,504,348	21,584,012	46,088,360
Rentals of Personal Property	22,869,237	34,314,330	57,183,567
Contracting	41,679,558	170,969,960	212,649,518
Feed Wholesale	532,533	475,616	1,008,149
Retail	285,171,625	430,453,617	715,625,242
Hotel/Motel	10,532,192	10,532,138	21,064,330
Agricultural Equipment	0	1,006,932	1,006,932
Rental Occupancy Tax	100,153	49,977	150,130
Use Tax	0	59,415,099	59,415,099
License Fees	0	153,433	153,433
TOTAL	$490,395,472	$969,018,030	$1,459,413,503

DISTRIBUTION BASE PORTION OF SALES TAX COLLECTIONS BY COUNTY, BY TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS FOR FISCAL YEAR 1985-86

Tables 9 through 23 present by county the distribution base portion of sales tax collections. Each class of sales tax consists of two parts: distribution base and non-shared. The distribution base is only that portion which is shared among the State, counties, and municipalities.

The classes of sales which are subject to the sales tax have been combined in some counties to comply with confidentiality laws. These classes will be combined in "other taxable activities".

The taxable income is the actual amount reported for a particular county. The following list shows all sales tax classes.

ACTIVITY/CLASS	DESCRIPTION
1.	Transporting & Towing
2.	Non-metal Mining, Oil & Gas Products
3.	Timbering
4.	Utilities
5.	Communications
6.	Railroads & Aircraft
7.	Private Car
8.	Pipelines
9.	Publishing
10.	Printing
11.	Restaurants & Bars
12.	Amusements
13.	Rentals of Real Property
14.	Rentals of Personal Property
15.	Contracting
16.	Feed Wholesale
17.	Retail
18.	Advertising
19.	Mining Severance
20.	Timber Severance
21.	Mining Inventory
22.	Timber Inventory
23.	Protested Restaurants
24.	Pre 5/83 Contracting
25.	Hotels/Motels
26.	Pre 7/74 Contracting

TABLE 9
DISTRIBUTION BASE PORTION OF SALES TAX COLLECTIONS
IN APACHE COUNTY FOR THE PERIOD BEGINNING
JULY 1, 1985 AND ENDING JUNE 30, 1986

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	NET TAXABLE INCOME REPORTED	RATE	SALES TAX COLLECTED
4. Utilities	$ 10,857,782	1%	$ 108,578
11. Restaurants 23. Protested Restaurants	5,443,526	2%	108,870
13. Rentals Of Real Property	2,255,772	2%	45,113
14. Rentals Of Personal Property	1,345,364	2%	26,907
15. Contracting 24. Pre 5/83 Contracting 26. Prior 7/01/74 Contracting	30,857,759	1%	308,577
17. Retail	48,288,812	2%	965,776
25. Hotel/Motel	2,062,293	2%	41,246
Other Taxable Activities	19,072,617		200,886
TOTAL	$120,183,925		$1,805,953

Figures may not add to total due to rounding.

TABLE 10
DISTRIBUTION BASE PORTION OF SALES TAX COLLECTIONS
IN COCHISE COUNTY FOR THE PERIOD BEGINNING
JULY 1, 1985 AND ENDING JUNE 30, 1986

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	NET TAXABLE INCOME REPORTED	RATE	SALES TAX COLLECTED
4. Utilities	$ 72,643,437	1%	$ 726,434
9. Publishing 10. Printing 18. Advertising	4,388,521	1%	43,885
11. Restaurants 23. Protested Restaurants	34,456,473	2%	689,129
12. Amusements	1,551,053	2%	31,021
13. Rentals Of Real Property	10,514,649	2%	210,281
14. Rentals Of Personal Property	9,453,368	2%	189,067
15. Contracting 24. Pre 5/83 Contracting 26. Prior 7/01/74 Contracting	73,558,915	1%	735,589
17. Retail	243,863,563	2%	4,877,272
25. Hotel/Motel	7,722,618	2%	154,453
Other Taxable Activities	26,686,661		287,113
TOTAL	$484,839,258		$7,944,244

Figures may not add to total due to rounding.

TABLE 11
DISTRIBUTION BASE PORTION OF SALES TAX COLLECTIONS
IN COCONINO COUNTY FOR THE PERIOD BEGINNING
JULY 1, 1985 AND ENDING JUNE 30,1986

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	NET TAXABLE INCOME REPORTED	RATE	SALES TAX COLLECTED
4. Utilities	$ 66,337,621	1%	$ 663,376
5. Communications	14,953,880	1%	149,539
9. Publishing 10. Printing 18. Advertising	7,219,017	1%	72,190
11. Restaurants 23. Protested Restaurants	88,523,162	2%	1,770,464
12. Amusements	17,722,416	2%	354,448
13. Rentals Of Real Property	27,803,262	2%	556,034
14. Rentals Of Personal Property	21,166,889	2%	423,338
15. Contracting 24. Pre 5/83 Contracting 26. Prior 7/01/74 Contracting	86,723,110	1%	867,231
17. Retail	335,223,265	2%	6,704,465
25. Hotel/Motel	52,973,319	2%	1,059,468
Other Taxable Activities	17,553,446		195,210
TOTAL	$736,199,387		$12,815,763

Figures may not add to total due to rounding.

TABLE 12
DISTRIBUTION BASE PORTION OF SALES TAX COLLECTIONS
IN GILA COUNTY FOR THE PERIOD BEGINNING
JULY 1, 1985 AND ENDING JUNE 30, 1986

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	NET TAXABLE INCOME REPORTED	RATE	SALES TAX COLLECTED
4. Utilities	$ 72,152,155	1%	$ 721,522
9. Publishing 10. Printing 18. Advertising	1,538,429	1%	15,384
11. Restaurants 23. Protested Restaurants	20,643,851	2%	412,877
12. Amusements	1,112,096	2%	22,242
13. Rentals Of Real Property	6,905,995	2%	138,113
14. Rentals Of Personal Property	3,884,286	2%	77,686
15. Contracting 24. Pre 5/83 Contracting 26. Prior 7/01/74 Contracting	24,042,774	1%	240,428
17. Retail	104,343,084	2%	2,086,862
25. Hotel/Motel	3,565,988	2%	71,320
Other Taxable Activities	122,141,588		2,281,137
TOTAL	$360,330,246		$6,267,571

Figures may not add to total due to rounding.

TABLE 13
DISTRIBUTION BASE PORTION OF SALES TAX COLLECTIONS
IN GRAHAM COUNTY FOR THE PERIOD BEGINNING
JULY 1, 1985 AND ENDING JUNE 30, 1986

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	NET TAXABLE INCOME REPORTED	RATE	SALES TAX COLLECTED
9. Publishing 10. Printing 18. Advertising	$ 1,438,693	1%	$ 14,387
11. Restaurants 23. Protested Restaurants	7,577,541	2%	151,551
12. Amusements	198,714	2%	3,974
13. Rentals Of Real Property 25. Hotel/Motel	2,211,736	2%	44,233
14. Rentals Of Personal Property	3,551,282	2%	71,026
15. Contracting 24. Pre 5/83 Contracting 26. Prior 7/01/74 Contracting	8,446,622	1%	84,466
17. Retail	62,632,795	2%	1,252,656
Other Taxable Activities	18,315,157		166,764
TOTAL	$104,372,540		$1,789,057

Figures may not add to total due to rounding.

TABLE 14
DISTRIBUTION BASE PORTION OF SALES TAX COLLECTIONS
IN GREENLEE COUNTY FOR THE PERIOD BEGINNING
JULY 1, 1985 AND ENDING JUNE 30, 1986

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	NET TAXABLE INCOME REPORTED	RATE	SALES TAX COLLECTED
4 Utilities	$ 39,267,616	1%	$ 392,676
11. Restaurants 23. Protested Restaurants	1,680,801	2%	33,616
12. Amusements	127,658	2%	2,553
13. Rentals Of Real Property 25. Hotel/Motel	714,330	2%	14,286
14. Rentals Of Personal Property	566,429	2%	11,329
15. Contracting 24. Pre 5/83 Contracting 26. Prior 7/01/74 Contracting	2,583,263	1%	25,833
17. Retail	21,520,892	2%	430,418
Other Taxable Activities	126,046,730		2,424,653
TOTAL	$192,507,719		$3,335,364

Figures may not add to total due to rounding.

TABLE 15
DISTRIBUTION BASE PORTION OF SALES TAX COLLECTIONS
IN LA PAZ COUNTY FOR THE PERIOD BEGINNING
JULY 1, 1985 AND ENDING JUNE 30,1986

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	NET TAXABLE INCOME REPORTED	RATE	SALES TAX COLLECTED
9. Publishing 10. Printing 18. Advertising	$ 592,273	1%	$ 5,923
11. Restaurants 23. Protested Restaurants	12,652,982	2%	253,060
12. Amusements	211,146	2%	4,223
13. Rentals Of Real Property	2,930,579	2%	58,608
14. Rentals Of Personal Property	4,329,115	2%	86,582
15. Contracting 24. Pre 5/83 Contracting 26. Prior 7/01/74 Contracting	9,714,819	1%	97,148
17. Retail	67,124,605	2%	1,342,492
25. Hotel/Motel	1,030,690	2%	20,614
Other Taxable Activities	18,499,931		170,161
TOTAL	$117,086,140		$2,038,811

Figures may not add to total due to rounding.

TABLE 16
DISTRIBUTION BASE PORTION OF SALES TAX COLLECTIONS
IN MARICOPA COUNTY FOR THE PERIOD BEGINNING
JULY 1, 1985 AND ENDING JUNE 30,1986

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	NET TAXABLE INCOME REPORTED	RATE	SALES TAX COLLECTED
4. Utilities	$1,741,790,436	1%	$17,417,905
5. Communications	378,661,628	1%	3,786,616
9. Publishing 10. Printing 18. Advertising	550,348,686	1%	5,503,491
11. Restaurants 23. Protested Restaurants	1,452,253,481	2%	29,045,063
12. Amusements	140,831,711	2%	2,816,634
13. Rentals Of Real Property	892,931,943	2%	17,857,608
14. Rentals Of Personal Property	866,035,280	2%	17,320,703
15. Contracting 24. Pre 5/83 Contracting 26. Prior 7/01/74 Contracting	2,805,973,085	1%	28,067,951
17. Retail	9,605,511,276	2%	192,110,188
25. Hotel/Motel	300,100,629	2%	6,002,019
Other Taxable Activities	196,934,594		1,210,008
TOTAL	$18,931,372,749		$321,138,186

Figures may not add to total due to rounding.

TABLE 17
DISTRIBUTION BASE PORTION OF SALES TAX COLLECTIONS
IN MOHAVE COUNTY FOR THE PERIOD BEGINNING
JULY 1, 1985 AND ENDING JUNE 30,1986

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	NET TAXABLE INCOME REPORTED	RATE	SALES TAX COLLECTED
4. Utilities	$ 65,570,089	1%	$ 655,701
5. Communications	18,128,390	1%	181,284
9. Publishing 10. Printing 18. Advertising	5,880,733	1%	58,807
11. Restaurants 23. Protested Restaurants	46,748,564	2%	934,971
12. Amusements	2,513,439	2%	50,269
13. Rentals Of Real Property	13,552,198	2%	271,029
14. Rentals Of Personal Property	9,701,420	2%	194,028
15. Contracting 24. Pre 5/83 Contracting 26. Prior 7/01/74 Contracting	55,193,841	1%	551,939
17. Retail	231,003,933	2%	5,005,079
25. Hotel/Motel	22,020,390	2%	440,409
Other Taxable Activities	21,112,607		378,680
TOTAL	$491,425,604		$8,722,196

Figures may not add to total due to rounding.

TABLE 18
DISTRIBUTION BASE PORTION OF SALES TAX COLLECTIONS
IN NAVAJO COUNTY FOR THE PERIOD BEGINNING
JULY 1, 1985 AND ENDING JUNE 30,1986

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	NET TAXABLE INCOME REPORTED	RATE	SALES TAX COLLECTED
4. Utilities	$ 36,552,299	1%	$ 365,523
5. Communications	7,766,708	1%	77,667
9. Publishing 10. Printing 18. Advertising	2,983,248	1%	29,832
11. Restaurants 23. Protested Restaurants	27,516,778	2%	550,335
12. Amusements	1,527,030	2%	30,541
13. Rentals Of Real Property	6,266,576	2%	125,324
14. Rentals Of Personal Property	3,961,594	2%	79,232
15. Contracting 24. Pre 5/83 Contracting 26. Prior 7/01/74 Contracting	34,795,448	1%	347,954
17. Retail	137,261,159	2%	2,745,223
25. Hotel/Motel	10,049,952	2%	201,000
Other Taxable Activities	7,094,763		66,432
TOTAL	$275,775,555		$4,619,063

Figures may not add to total due to rounding.

TABLE 19
DISTRIBUTION BASE PORTION OF SALES TAX COLLECTIONS
IN PIMA COUNTY FOR THE PERIOD BEGINNING
JULY 1, 1985 AND ENDING JUNE 30,1986

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	NET TAXABLE INCOME REPORTED	RATE	SALES TAX COLLECTED
4. Utilities	$500,737,194	1%	$ 5,007,372
5. Communications	115,327,020	1%	1,153,270
9. Publishing 10. Printing 18. Advertising	122,981,272	1%	1,229,812
11. Restaurants 23. Protested Restaurants	448,581,903	2%	8,971,639
12. Amusements	34,230,479	2%	684,610
13. Rentals Of Real Property	212,704,408		4,253,850
14. Rentals Of Personal Property	181,392,972	2%	3,627,859
15. Contracting 24. Pre 5/83 Contracting 26. Prior 7/01/74 Contracting	720,310,689	1%	7,203,107
17. Retail	2,422,774,527	2%	48,455,490
25. Hotel/Motel	96,671,231	2%	1,933,427
Other Taxable Activities	120,394,455		2,103,107
TOTAL	$4,976,106,150		$84,623,543

Figures may not add to total due to rounding.

TABLE 20
DISTRIBUTION BASE PORTION OF SALES TAX COLLECTIONS
IN PINAL COUNTY FOR THE PERIOD BEGINNING
JULY 1, 1985 AND ENDING JUNE 30,1986

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	NET TAXABLE INCOME REPORTED	RATE	SALES TAX COLLECTED
4. Utilities	$112,919,950	1%	$1,129,200
5. Communications	11,463,653	1%	114,637
9. Publishing 10. Printing 18. Advertising	2,473,840	1%	24,739
11. Restaurants 23. Protested Restaurants	36,102,072	2%	722,041
12. Amusements	3,356,430	2%	67,129
13. Rentals Of Real Property	10,225,431	2%	204,497
14. Rentals Of Personal Property	7,541,462	2%	150,829
15. Contracting 24. Pre 5/83 Contracting 26. Prior 7/01/74 Contracting	125,911,524	1%	1,259,115
17. Retail	243,337,005	2%	4,866,740
25. Hotel/Motel	4,676,458	2%	93,530
Other Taxable Activities	194,867,341		2,609,058
TOTAL	$752,875,166		$11,241,515

Figures may not add to total due to rounding.

TABLE 21
DISTRIBUTION BASE PORTION OF SALES TAX COLLECTIONS
IN SANTA CRUZ COUNTY FOR THE PERIOD BEGINNING
JULY 1, 1985 AND ENDING JUNE 30,1986

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	NET TAXABLE INCOME REPORTED	RATE	SALES TAX COLLECTED
4. Utilities	$14,671,323	1%	$146,713
9. Publishing 10. Printing 18. Advertising	624,164	1%	6,242
11. Restaurants 23. Protested Restaurants	11,815,400	2%	236,308
12. Amusements	753,382	2%	15,068
13. Rentals Of Real Property	7,023,707	2%	140,466
14. Rentals Of Personal Property	2,746,564	2%	54,931
15. Contracting 24. Pre 5/83 Contracting 26. Prior 7/01/74 Contracting	14,391,321	1%	143,914
17. Retail	94,444,364	2%	1,888,888
25. Hotel/Motel	2,741,860	2%	54,837
Other Taxable Activities	5,715,534		53,308
TOTAL	$154,927,619		$2,740,675

Figures may not add to total due to rounding.

TABLE 22
DISTRIBUTION BASE PORTION OF SALES TAX COLLECTIONS
IN YAVAPAI COUNTY FOR THE PERIOD BEGINNING
JULY 1, 1985 AND ENDING JUNE 30,1986

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	NET TAXABLE INCOME REPORTED	RATE	SALES TAX COLLECTED
4. Utilities	$82,643,912	1%	$ 826,439
5. Communications	12,525,155	1%	125,252
9. Publishing 10. Printing 18. Advertising	7,103,234	1%	71,033
11. Restaurants 23. Protested Restaurants	50,115,362	2%	1,002,307
12. Amusements	2,405,210	2%	48,104
13. Rentals Of Real Property	16,590,431	2%	331,790
14. Rentals Of Personal Property	8,858,031	2%	177,161
15. Contracting 24. Pre 5/83 Contracting 26. Prior 7/01/74 Contracting	72,334,405	1%	723,344
17. Retail	266,123,984	2%	5,322,479
25. Hotel/Motel	8,775,139	2%	175,504
Other Taxable Activities	88,774,283		1,613,570
TOTAL	$616,249,146		$10,416,983

Figures may not add to total due to rounding.

TABLE 23
DISTRIBUTION BASE PORTION OF SALES TAX COLLECTIONS
IN YUMA COUNTY FOR THE PERIOD BEGINNING
JULY 1, 1985 AND ENDING JUNE 30,1986

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	NET TAXABLE INCOME REPORTED	RATE	SALES TAX COLLECTED
4. Utilities	$74,559,285	1%	$ 745,593
5. Communications	15,426,314	1%	154,263
9. Publishing 10. Printing 18. Advertising	6,430,904	1%	64,309
11. Restaurants 23. Protested Restaurants	46,322,630	2%	926,453
12. Amusements	2,553,226	2%	51,065
13. Rentals Of Real Property	13,382,969	2%	267,645
14. Rentals Of Personal Property	18,927,969	2%	378,559
15. Contracting 24. Pre 5/83 Contracting 26. Prior 7/01/74 Contracting	101,977,758	1%	1,019,777
17. Retail	340,508,612	2%	6,810,172
25. Hotel/Motel	13,491,702	2%	269,835
Other Taxable Actvitites	49,472,175		152,760
TOTAL	$683,053,544		$10,840,431

Figures may not add to total due to rounding.

TABLE 24
STATE SALES TAX DISTRIBUTION TO COUNTIES
1981-82 Through 1985-86

COUNTY	1981-82	1982-83	1983-84[2]	1984-85[1]	1985-86
Apache	$ 1,306,286	$ 1,455,844	$ 2,341,551	$ 2,077,604	$ 2,413,543
Cochise	3,219,073	3,001,113	4,173,538	3,497,233	3,493,498
Coconino	4,321,139	4,501,111	6,509,616	5,127,191	5,471,965
Gila	2,398,241	2,104,311	2,630,814	2,188,305	2,324,779
Graham	704,259	681,888	961,069	768,085	720,315
Greenlee	1,630,177	1,237,226	1,634,560	1,121,539	1,040,083
La Paz	---------	334,842	902,152	689,938	830,669
Maricopa	73,749,273	79,034,386	102,639,877	107,426,813	116,405,844
Mohave	2,971,944	3,065,166	4,660,702	3,817,772	3,980,503
Navajo	3,566,057	3,842,879	5,447,169	4,063,731	3,997,581
Pima	23,452,568	24,896,433	32,670,034	30,055,337	31,966,001
Pinal	4,318,439	3,835,370	5,445,341	4,113,823	4,292,030
Santa Cruz	1,075,054	885,976	1,239,676	1,146,961	1,158,205
Yavapai	3,518,970	3,626,040	5,282,339	4,162,873	4,710,438
Yuma	3,597,929	3,448,511	4,716,579	3,912,478	3,869,368
TOTAL	$129,829,409	$135,951,094	$181,255,017	$174,179,683	$186,674,822

County distributions are based on relative assessed valuation and sales in the county.

1 Prior to FY 85-86, counties were reimbursed for 100% of their loss from removal of the tax on food.
2 FY 1983-84 includes a $25 million appropriation which was distributed monthly with the counties' shares of the Distribution Base.

TABLE 25
STATE SALES TAX DISTRIBUTION TO MUNICIPALITIES
FOR FISCAL YEAR 1985-86

CITIES BY COUNTY	AMOUNT	TOTAL
APACHE		
Eagar	$ 170,066	
St. Johns	198,498	
Springerville	87,542	$ 456,106
COCHISE		
Benson	250,537	
Bisbee	421,616	
Douglas	769,573	
Huachuca City	97,888	
Sierra Vista	1,487,419	
Tombstone	96,183	
Willcox	191,121	3,314,337
COCONINO		
Flagstaff	2,063,739	
Fredonia	61,277	
Page	296,391	
Williams	133,540	2,554,947
GILA		
Globe	405,819	
Hayden	71,006	
Miami	160,062	
Payson	307,598	
Winkelman	62,469	1,006,954
GRAHAM		
Pima	94,237	
Safford	413,123	
Thatcher	199,127	706,487
GREENLEE		
Clifton	250,176	
Duncan	35,530	285,706
LA PAZ		
Parker	149,807	149,807
MARICOPA		
Avondale	499,002	
Buckeye	203,965	
Carefree	59,356	
Chandler	1,906,239	
El Mirage	253,828	
Gila Bend	95,313	
Gilbert	366,377	
Glendale	5,843,153	
Goodyear	198,179	
Guadalupe	259,477	
Mesa	9,602,879	
Paradise Valley	696,488	
Peoria	810,502	
Phoenix	46,991,344	
Scottsdale	5,314,375	
Surprise	$ 220,788	
Tempe	6,421,348	
Tolleson	261,283	
Wickenburg	210,124	
Youngtown	132,985	$ 80,347,005
MOHAVE		
Bullhead City	1,007,251	
Colorado City	67,652	
Kingman	550,957	
Lake Havasu City	946,085	2,571,945
NAVAJO		
Holbrook	340,936	
Pinetop-Lakeside	136,770	
Show Low	256,663	
Snowflake	207,527	
Taylor	113,276	
Winslow	466,823	1,521,995
PIMA		
Marana	98,655	
Oro Valley	147,285	
South Tucson	386,250	
Tucson	20,037,627	20,669,817
PINAL		
Apache Junction	595,011	
Casa Grande	885,431	
Coolidge	403,775	
Eloy	367,755	
Florence	317,690	
Kearny	155,940	
Mammoth	112,332	
Superior	271,102	3,109,036
SANTA CRUZ		
Nogales	924,285	
Patagonia	57,757	982,042
YAVAPAI		
Chino Valley	172,850	
Clarkdale	89,953	
Cottonwood	270,267	
Jerome	25,340	
Prescott	1,170,744	
Prescott Valley	137,017	1,866,171
YUMA		
San Luis	114,681	
Somerton	333,162	
Wellton	53,812	
Yuma	2,554,857	3,056,512
TOTAL	$122,598,867	$122,598,867

City distributions are based on relative population.
Figures may not add to totals due to rounding.

TABLE 26
MUNICIPAL SALES TAX COLLECTION PROGRAM
COLLECTIONS BY CITY
FOR FISCAL YEAR 1985-86

CITY	RATE	COLLECTIONS	CITY	RATE	COLLECTIONS
Apache Junction	1%[1]	$ 1,598,321	Oro Valley	2%	$ 439,977
Avondale	1%	486,243	Page	1%	620,976
Benson	2%	463,454	Paradise Valley	1%	1,200,862
Bisbee	2%	564,445	Parker	2%	496,021
Buckeye	1%	256,992	Payson	2%	1,463,668
Bullhead City	1%	1,065,599	Pima	1%	51,559
Carefree	1%	275,217	Pinetop-Lakeside	2%	959,617
Casa Grande	1.5%	2,900,967	Prescott Valley	1%	301,033
Chino Valley	1%	104,401	Safford	1%	715,573
Clarkdale	1%	55,852	St. Johns	1%	165,124
Clifton	1%	76,276	San Luis	2%	349,633
Coolidge	1.5%	614,208	Show Low	2%	1,624,182
Cottonwood	1%	823,683	Sierra Vista	1%	1,962,932
Douglas	2%	1,467,154	Snowflake	1%	167,987
Duncan	2%	65,586	Somerton	2%	119,855
Eagar	2%	207,383	South Tucson	2%	971,257
El Mirage	2%	348,831	Springerville	2%	620,673
Eloy	1.5%	443,222	Superior	1%	73,927
Florence	2%	179,680	Surprise	1%	177,138
Fredonia	1%	31,978	Taylor	1%	43,117
Gila Bend	2%	265,562	Thatcher	1%	220,033
Gilbert	1%	857,009	Tolleson	2%	311,730
Glendale	1%	11,083,566	Tombstone	2%	142,334
Globe	1%	540,237	Wellton	2%	165,775
Goodyear	1%	610,521	Wickenburg	1%	609,226
Guadalupe	2%	224,572	Willcox	2%	493,468
Holbrook	2%	895,321	Williams	3%	501,857
Huachuca City	1%	61,536	Winslow	2%	910,789
Jerome	2%	54,069	Youngtown	1%	186,915
Kearny	1%	94,428	Yuma	1%	4,679,579
Kingman	2%	2,338,217			
Lake Havasu	1%	1,553,201	TOTAL		$51,527,477
Marana	2%	115,671			
Miami	1%	57,258			

[1] This tax rate was in effect through May 20, 1986.

TABLE 27
MUNICIPAL SALES TAX COLLECTION PROGRAM
1974-75 through 1985-86

FISCAL YEAR	TOTAL COLLECTIONS	NUMBER OF CITIES IN PROGRAM
1974-75	$ 7,200,000	31
1975-76	10,679,373	37
1976-77	12,979,383	40
1977-78	16,107,372	43
1978-79	20,708,038	50
1979-80	24,024,045	52
1980-81	27,408,078	57
1981-82	31,132,392	59
1982-83	34,141,550	59
1983-84	39,237,842	60
1984-85	45,595,426	64
1985-86	51,527,477	64

CORPORATE INCOME TAX

MAJOR FEATURES

Corporations use federal taxable income as a starting point to compute Arizona taxable income. In computing Arizona taxable income, a corporation may deduct Federal and Arizona income taxes. Corporate income tax is levied on Arizona taxable income at rates graduated from 2.5% on income under $1,000 to 10.5% on income over $6,000. (Refer to Table 28.)

The Uniform Division of Income for Tax Purposes Act (UDITPA), adopted in 1984, aligned Arizona's corporate income tax provisions in step with thirteen other states enacting UDITPA. The law was passed to simplify the filing of corporation taxes and to increase the uniformity among large multistate businesses. It defined a foreign corporation to include a domestic corporation which derives less than 20% of its federal gross income from sources within the United States.

DISTRIBUTION

State corporate income tax collections are shared with Arizona municipalities as Urban Revenue Sharing. Each year, 15% of net collections from two years prior is distributed to the cities and towns. The remainder is deposited in the State General Fund after amounts sufficient to pay refunds are deposited into the income tax funds. (Refer to Tables 31 and 32.)

INDIVIDUAL INCOME TAX

MAJOR FEATURES

Arizona income tax calculations use federal adjusted gross income as a starting point to compute taxable income. Individuals are allowed to deduct Federal and Arizona income taxes paid. (Refer to Table 28.)

Individual rates are graduated from a minimum of 2% on individual income of $1,123, or joint income of $2,246, to a maximum of 8% on individual income over $6,738, or joint income over $13,476. Individual tax brackets are annually indexed for inflation.

The maximum allowable renter's tax credit for a full-year renter is 5% of the total rent paid, not to exceed $100. The maximum solar energy credit allowed for the 1985 tax year was 25% of the cost of the solar device, not to exceed $1,000. This credit decreases at a rate of 5% of the cost of the device per year and is scheduled to expire after December 31, 1987. The property tax credit is a refundable income tax credit granted to persons over 65 with incomes that do not exceed $3750 for persons living alone or $5500 for persons living with a spouse or other person. The amount of the credit reduces as income increases from zero to the maximum limit but cannot exceed the actual amount of property taxes paid by the taxpayer.

Arizona withholds individual income tax from wages at rates of 10%, 15%, or 20% of federal withholding: the 20% being optional, 15% mandatory on wages of $15,000 or greater annually, and 10% on wages less than $15,000. Beginning in 1985, an individual is not required to make estimated income tax payments; however, anyone can voluntarily make estimated payments. As of the 1985 tax year, income tax refunds can be applied to the next year's income taxes.

Tables in this section highlight income tax collections and distributions, as well as two features of the individual income tax: 1) changes in exemptions, deductions and credits indexed to inflation, and 2) several credits which directly reduce individual tax liability. (Refer to Tables 29 and 30.)

DISTRIBUTION

State income tax collections are shared with Arizona municipalities as Urban Revenue Sharing. Each year, 15% of net collections from two years prior is distributed to the cities and towns. The remainder is deposited in the State General Fund after amounts sufficient to pay refunds are deposited into the income tax fund. (Refer to Tables 31 and 32.)

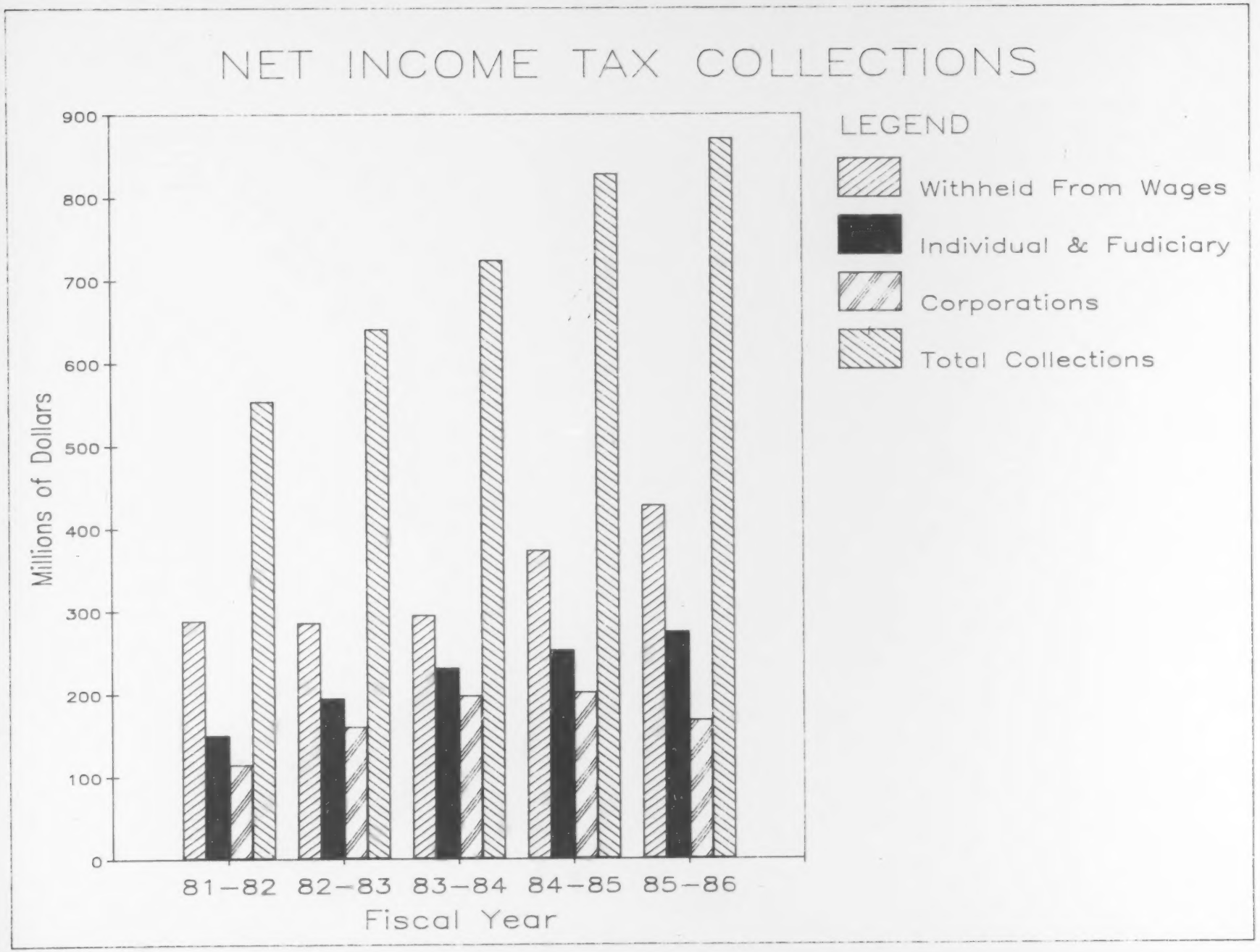

NET INCOME TAX COLLECTIONS
900
800
700
600
500
400
300
200
100
0
Millions of Dollars
81–82
82–83
83–84
84–85
85–86
Fiscal Year
LEGEND
Withheld From Wages
Individual & Fudiciary
Corporations
Total Collections

TABLE 28
INCOME TAX COLLECTIONS

SOURCE	1981-82	1982-83	1983-84	1984-85	1985-86	PERCENT OF NET COLLECTIONS IN 1985-86
Withheld from Wages						
Gross Revenue	$417,219,768	$400,596,831	$418,869,050	$520,151,450	$576,701,782	
Refunds and Charge-offs	128,524,187	114,510,586	123,334,520	146,748,025	148,652,578	
Net	288,695,581	286,086,245	295,534,530	373,403,425	428,049,204	49.11
Individual & Fiduciaries						
Gross Revenue	150,867,216	195,584,283	231,658,295	254,354,660	275,161,560	
Refunds and Charge-offs	578,098	954,771	485,298	1,513,779	253,964	
Net	150,289,118	194,629,512	231,172,997	252,840,881	274,907,596	31.54
Corporations						
Gross Revenue	122,024,168	169,039,740	207,341,166	215,436,786	213,236,463	
Refunds and Charge-offs	7,264,927	8,642,778	9,454,969	13,159,631	44,553,812	
Net	114,759,241	160,396,962	197,886,197	202,277,155	168,682,651	19.35
Sub-Total Net Collections	553,743,940	641,112,719	724,593,724	828,521,461	871,639,451	100.00
Less distributions for:						
Urban Revenue Sharing	65,792,971	67,463,090	91,085,500	97,206,149	99,574,591	
Contracted Collection Agency	----	----	22,315	58,257	127,478	
Wildlife Contributions	----	----	238,370	231,923	228,176	
Child Abuse Prevention	----	----	----	150,154[1]	260,616	
Sub-Total Distributions	65,792,971	67,463,090	91,085,500	97,646,483	100,190,861	
NET REVENUE TO STATE GENERAL FUND	$487,950,969	$573,649,629	$633,247,539	$730,874,978	$771,448,590	

[1] Effective for tax years beginning from and after December 31, 1984.

TABLE 29
EXEMPTIONS, DEDUCTIONS & CREDITS INDEXED TO INFLATION

TAX YEAR	PERSONAL EXEMPTION	BLIND EXEMPTION	AGE 65 AND OVER EXEMPTION	DEPENDENT EXEMPTION	STANDARD DEDUCTION %	STANDARD DEDUCTION LIMIT[1]	MAXIMUM RENTER'S CREDIT	MAXIMUM PROPERTY TAX CREDIT
1977 (base year)	$1,000	$500	$1,000	$600	10	$500/$1,000	$50	$225
1978	1,101	551	1,101	661	11	551/1,101	83[2]	248
1979	1,226	613	1,226	736	12	613/1,226	92	276
1980	1,422	711	1,422	854	14	711/1,422	107	320
1981	1,589	795	1,589	954	16	795/1,589	120	358
1982	1,729	865	1,729	1,038	17	865/1,729	130	389
1983	1,759	880	1,759	1,056	18	880/1,759	132	396
1984	1,834	917	1,834	1,100	18	917/1,834	100[3]	413[4]
1985	1,941	971	1,941	1,165	19.4	971/1,941	100	437

[1] Amounts shown are for individual and married-filing-jointly returns.
[2] Base for renter's credit changed to $75 in 1978.
[3] As of the 1984 tax year the renter's tax credit is 5% of rents paid or $100, whichever is less.
[4] As of the 1984 tax year the property tax credit is capped based on the actual property tax paid.

TABLE 30
SELECTED INDIVIDUAL INCOME TAX CREDITS

CREDIT	1982-1983 CLAIMANTS	1982-1983 CREDITS	1983-1984 CLAIMANTS	1983-1984 CREDITS	1984-1985 CLAIMANTS	1984-1985 CREDITS	1985-1986 CLAIMANTS	1985-1986 CREDITS
Energy Conservation[1]	52,489	$15,839,918	58,306	$26,177,237[2]	35,022	$23,241,259[2]	34,441	$22,156,078
Property Tax	50,340	16,465,478	46,184	14,996,364			28,018	5,690,454
Renter's	256,654	30,664,820	278,134	35,416,672	259,775	28,939,761[3]	242,678	22,134,552
TOTAL CREDITS		$62,970,216		$76,590,273		$52,181,020		$49,981,084

1 Includes residential insulation credit, solar development credit and commercial solar credit. For tax beginning from and after December 31, 1984, income tax credit for installation of residential insulation and devices has been repealed.

2 Total miscellaneous credits: includes foreign tax credits and energy conservation credits.

3 In order to make room for additional items on the form, these credits were combined and cannot be presented individually. Effective 84-85, the legal eligibility requirements for both the property tax and renter's credits were changed and resulted in a lower number of claimants and the reduction in the average credit per claim.

TABLE 31
DISTRIBUTION OF INCOME TAX AS URBAN REVENUE SHARING
TO MUNICIPALITIES IN 1985-86

CITIES BY COUNTY	AMOUNT	% OF TOTAL
APACHE		
Eagar	$ 147,835	.1361
St. Johns	178,398	.1642
Springerville	76,910	.0708
COCHISE		
Benson	225,170	.2073
Bisbee	378,938	.3488
Douglas	691,665	.6367
Huachuca City	87,981	.0810
Sierra Vista	1,320,879	1.2159
Tombstone	86,445	.0796
Willcox	171,777	.1581
COCONINO		
Flagstaff	1,840,290	1.6940
Fredonia	55,087	.0507
Page	259,917	.2393
Williams	120,027	.1105
GILA		
Globe	364,742	.3357
Hayden	63,827	.0588
Miami	143,863	.1324
Payson	268,445	.2471
Winkelman	56,147	.0517
GRAHAM		
Pima	84,697	.0780
Safford	371,310	.3418
Thatcher	178,716	.1645
GREENLEE		
Clifton	224,852	.2070
Duncan	31,940	.0294
LA PAZ		
Parker	134,646	.1239
MARICOPA		
Avondale	432,648	.3982
Buckeye	181,894	.1674
Carefree	51,062	.0470
Chandler	1,571,739	1.4468
El Mirage	228,136	.2100
Gila Bend	83,955	.0773
Gilbert	302,822	.2787
Glendale	5,147,069	4.7378
Goodyear	166,163	.1529
Guadalupe	238,677	.2197
Mesa	8,262,221	7.6053
Paradise Valley	625,983	.5762
Peoria	664,575	.6117
Phoenix	41,854,920	38.5270
Scottsdale	4,694,187	4.3210
Surprise	197,202	.1815
Tempe	5,663,407	5.2131
Tolleson	234,810	.2161
Wickenburg	187,244	.1724
Youngtown	119,391	.1099
MOHAVE		
Bullhead City	$ 905,287	.8333
Kingman	490,331	.4513
Lake Havasu City	842,678	.7757
NAVAJO		
Holbrook	306,424	.2821
Pinetop-Lakeside	122,622	.1129
Show Low	227,659	.2096
Snowflake	185,920	.1711
Taylor	101,435	.0934
Winslow	419,565	.3862
PIMA		
Marana	88,669	.0816
Oro Valley	130,727	.1203
South Tucson	347,156	.3196
Tucson	17,937,248	16.5111
PINAL		
Apache Junction	526,243	.4844
Casa Grande	792,994	.7299
Coolidge	362,888	.3340
Eloy	330,524	.3042
Florence	282,376	.2599
Kearny	140,155	.1290
Mammoth	100,958	.0929
Superior	243,656	.2243
SANTA CRUZ		
Nogales	830,707	.7647
Patagonia	51,909	.0478
YAVAPAI		
Chino Valley	151,384	.1393
Clarkdale	80,089	.0737
Cottonwood	241,007	.2218
Jerome	22,247	.0205
Prescott	1,052,222	.9686
Prescott Valley	120,980	.1114
YUMA		
San Luis	103,077	.0949
Somerton	305,152	.2809
Wellton	40,224	.0370
Yuma	2,280,671	2.0993
TOTAL	$108,637,795[1]	100.00

[1] Distributed in FY 85-86. As noted in Table 13, $99,574,591 came from FY 85-86 receipts. The remaining $9,063,204 was set aside from FY 84-85 receipts. Figures may not add to total due to rounding.

TABLE 32
URBAN REVENUE SHARING

FISCAL YEAR	AMOUNT
1974-75	$21,904,030
1975-76	26,558,140
1976-77	30,313,600
1977-78	31,405,355
1978-79	36,356,905
1979-80	42,997,581
1980-81	53,942,465
1981-82	65,083,596
1982-83	73,596,099
1983-84	83,061,596
1984-85	96,166,908
1985-86	108,637,795[1]

[1] Distributed in FY 85-86. As noted in Table 13, $99,574,591 came from FY 85-86 receipts. The remaining $9,063,204 was set aside from FY 84-85 receipts.

LUXURY TAX

Arizona's luxury tax, applied to tobacco product distributors and liquor wholesalers, provide the state with additional revenue for unemployment and welfare relief.

Effective July 1, 1984, a Corrections Fund was established under A.R.S. Section 41-1651. During the 1985-86 fiscal year, $22,153,920 from total luxury tax monies collected, was deposited in the Corrections Fund. The remaining $69,470,809 was deposited in the State General Fund. (Refer to Table 33.)

The Department is responsible for issuing licenses and collecting taxes on tobacco products and alcoholic beverages. In addition the Department, with assistance from the Department of Public Safety, investigates and confiscates contraband alcoholic beverages and tobacco products illegally distributed through commercial channels.

Effective July 1, 1984, the luxury tax on cigarettes, tobacco products and liquor was increased to the rates shown below.

Tobacco Products	Rate
Cigarettes	
package of 20 or fractional part	$ .15
Cigars	
Small cigars weighing not more than 3 lbs/1,000	
package of 20 or less	.04
Selling for 5¢ or less	
each cigar	.00666
Selling for more than 5¢	
each cigar	.02
Smoking tobacco, snuff, fine cut, chewing, etc.	
per ounce	.02
Cavendish, plug & twist	
per ounce	.005

Alcoholic Beverages	
Spirituous Liquors	
per gallon	3.00
Vinous Liquors - more than 24% alcohol	
per gallon	4.00
Vinous Liquors - less than 24% alcohol	
per gallon	.84
Malt Liquor (Beer)	
per gallon	.16
per barrel (31 gallons)	4.96

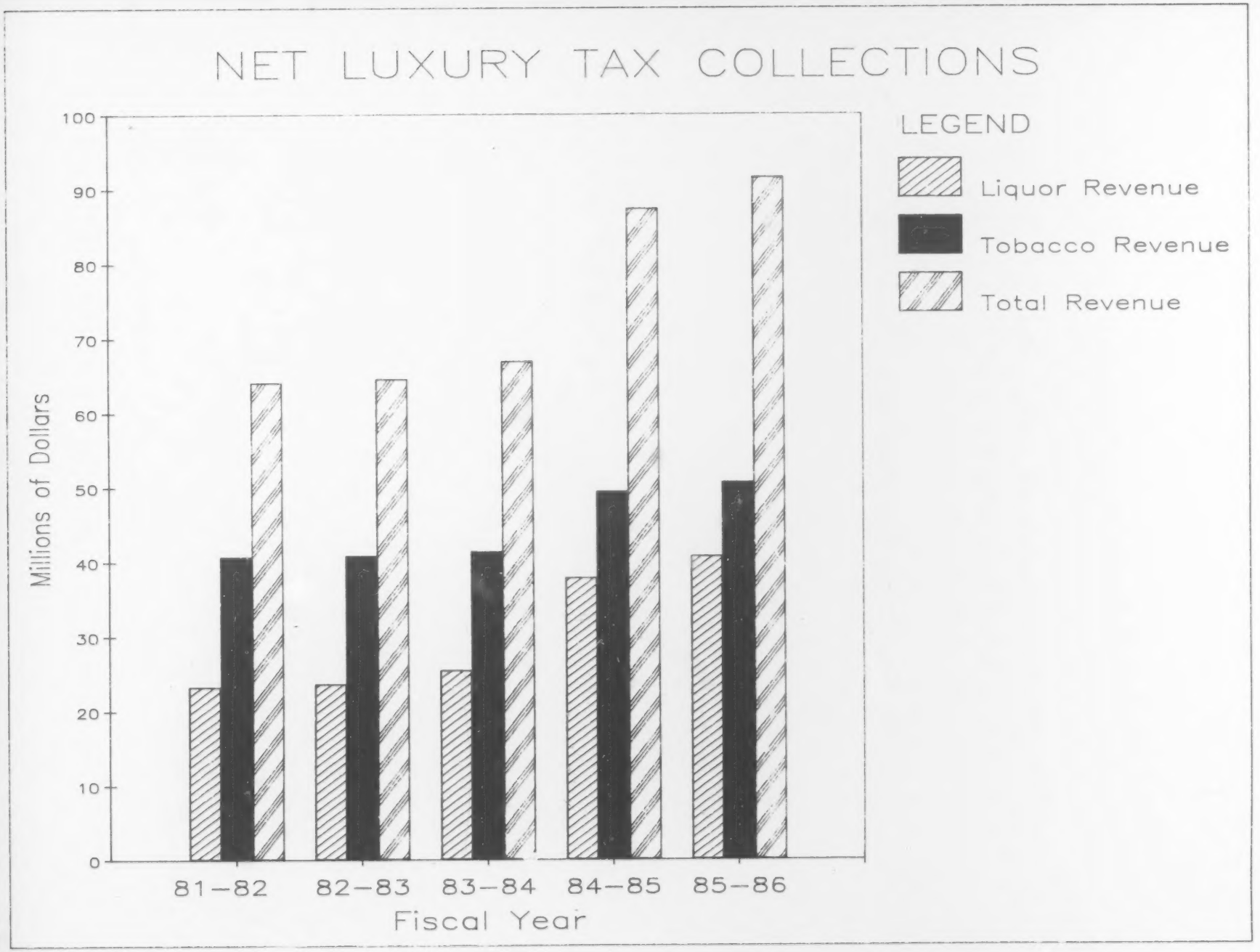

NET LUXURY TAX COLLECTIONS
LEGEND
Liquor Revenue
Tobacco Revenue
Total Revenue
Millions of Dollars
100
90
80
70
60
50
40
30
20
10
0
81–82
82–83
83–84
84–85
85–86
Fiscal Year

TABLE 33
LUXURY TAX COLLECTIONS

SOURCE	1981-82	1982-83	1983-84	1984-85	1985-86	PERCENT OF COLLECTIONS IN 1985-86
Spirituous Liquor						
Net Revenue	$13,482,032	$13,890,962	$14,600,111	$17,049,450	$18,034,731	19.683
Vinous Liquor						
Net Revenue	2,967,247	3,008,457	3,663,608	6,785,029	7,563,260	8.255
Malt Liquor						
Net Revenue	6,891,216	6,813,120	7,235,455	14,102,897	15,250,805	16.645
Tobacco - All Types						
Gross Revenue	42,222,950	42,467,848	44,266,716	51,386,983	51,419,032	56.119
Refunds/Discounts	(1,459,002)	(1,563,178)	(2,793,086)	(1,862,655)	(644,674)	(.704)
Licenses	2,245	1,300	1,475	1,575	1,575	.002
Net Revenue	40,766,193	40,905,970	41,475,105	49,525,903	50,775,933	55.417
TOTAL NET REVENUE	$64,106,688	$64,618,509	$66,974,279	$87,463,279	$91,624,729[1]	100.00

[1] Of the monies collected from the Luxury Tax during fiscal year 1985-86, $22,153,920 was deposited in the Corrections Fund. The remaining $69,470,809 was deposited in the State General Fund.

ESTATE TAX

The Arizona estate tax is a tax on the transfer of property or interest on property which takes effect upon the owner's death. The estate tax is imposed on the net taxable estate before distribution, differing from the inheritance tax which is imposed on the portion of the estate received by a beneficiary. Arizona does not impose inheritance or gift taxes. Estate taxes are deposited in the General Fund.

The Estate Tax Office of the Arizona Department of Revenue is responsible for the collection of estate taxes and the processing of Estate Tax Returns (Form 76) for taxable estates and Reports of Personal Representative of Decendent (Form 74) for nontaxable estates. (Refer to Table 34.)

An estate is not taxable and no estate tax return is required to be filed if a federal estate tax return is not required. However, a Report of Personal Representative of Decedent must be filed in order to obtain waivers to be used in connection with probate proceedings, to terminate joint tenancy on real property and/or to transfer stock in companies incorporated in Arizona held by resident decedents.

The Arizona estate tax for an Arizona resident decedent is an amount equal to the federal credit for state death taxes. If the decedent owned realty or tangible personal property having situs in another state, the Arizona tax is reduced by either the amount of death tax paid to the other state or a prorated share of the federal credit, whichever is less.

The Arizona estate tax for a nonresident decedent is a prorated share of the federal credit, based on the value of real property and tangible personal property having actual situs in Arizona.

UNCLAIMED PROPERTY

Other responsibilities of the Estate Tax Office include the collection, safekeeping and disposition of unclaimed property, escheated estates and unclaimed shares and dividends.

The Unclaimed Property Unit establishes and maintains records of funds and other personal property, presumed to be abandoned, which are received from banking or financial organizations, insurance corporations, utilities, business associates, fiduciaries, state courts and public officers and agencies. The largest percentage of unclaimed property is comprised of contents of safe deposit boxes on which rent has not been paid for one year, bank accounts with no activity for seven years, insurance benefits not claimed in seven years, utility company deposits not claimed in two years and travelers checks not cashed in fifteen years. Cash is deposited in the General Fund when received; personal property other than cash is sold at public auction and the proceeds deposited in the General Fund. Unclaimed property may be recovered by an owner at any time.

The Unclaimed Property Unit establishes and maintains records of escheated estates and unclaimed shares and dividends. When a person dies without leaving a will and has no known heirs, his or her property reverts to the state as the original and ultimate proprietor. (Refer to Table 34.)

In early 1986, Arizona joined the Unclaimed Property Clearinghouse, a consortium of states supporting specialized audits of financial institutions which hold large numbers of unclaimed securities or other assets. The unclaimed property audit program collected $512,686 in fiscal year 1985-86, an increase from fiscal year 1984-85 of 69%.

Funds received from escheated estates and from unclaimed shares and dividends are deposited in the Permanent School Fund. (Refer to Table 35.)

TABLE 34
COLLECTIONS OF ESTATE TAXES AND UNCLAIMED PROPERTY

SOURCE	1981-82	1982-83	1983-84	1984-85	1985-86	PERCENT OF COLLECTIONS IN 1985-1986
Estate Taxes	$12,637,301	$12,492,305	$12,978,900	$15,302,387	$13,528,098	
Refunds	334,585	260,954	442,689	555,594	359,381	
Net	12,302,716	12,231,351	12,536,211	14,746,793	13,168,717	85.28
Unclaimed Property	571,366	995,848	1,271,125	1,864,695	2,531,318	
Refunds	304,441	103,425	239,286	226,500	320,995	
Net	266,925	892,423	1,031,839	1,638,195	2,210,323	14.31
Escheated Estates	189,532	366,293	231,461	164,930	106,091	
Refunds	0	2,571	26,426	155,558	59,828	
Net	189,532	363,722	205,035	9,372	46,263	.30
Unclaimed Dividends	796	1,676	71,641	4,746	17,168	
Refunds	0	0	4,298	77,522	8	
Net	796	1,676	67,343	(72,776)	17,160	.11
TOTAL NET REVENUE	$12,759,969	$13,489,172	$13,840,428	$16,321,584	$15,442,463	100.00

TABLE 35
DISTRIBUTION OF ESTATE TAX COLLECTIONS
1985-86

Net to General Fund	$15,379,040
Net to Permanent School Fund	(63,423)[1]
TOTAL NET COLLECTIONS	$15,442,463

[1] Due to a correction in a prior year's transfer.

BINGO

The bingo tax is divided into two types: large game tax and small game tax. Large games are defined as any game with gross receipts of more than $300 per week. The tax on large games is 2% of gross receipts, one half of which is deposited to the General Fund and the other half is used to pay the administrative costs of the tax. Small games are defined as having gross receipts of $300 per week maximum. The tax on small games is 2.5% of net proceeds, all of which is used to pay the administrative costs of the tax. (Refer to Table 36 for total bingo collections.)

Large game licenses are $100 each and small game licenses are $5 each. Currently, there are 266 large game licenses and 411 small game licenses. All license fees and penalty and interest payments are deposited in the State General Fund.

TABLE 36
BINGO COLLECTIONS
1977-78 through 1985-86

FISCAL YEAR	AMOUNT
1977-78	$118,114
1978-79	127,072
1979-80	142,458
1980-81	159,422
1981-82	276,216
1982-83	388,758
1983-84	415,224
1984-85	412,285
1985-86	600,158

TAX BASE

In Arizona the property tax is an ad valorem tax, or tax on the value of property. For tax purposes, all properties in Arizona carry two values: limited value and full cash value. Taxes based on the limited value, called primary property taxes, are used to pay for the basic maintenance and operations of a jurisdiction. (Refer to Table 41.) This value is limited to the larger of 10% growth per year or 25% of the difference between the prior year's limited value and the new full cash value. The full cash value is unlimited and floats with the market. Taxes based on this value are referred to as secondary property taxes and are used to pay for bonded indebtedness, voter-approved overrides and special district levies. (Refer to Table 42.)

All taxable property in Arizona is classified according to its current use. Each class has a different assessment ratio which is the percentage of the value used as a tax base. The assessment ratios are prescribed by law and those in effect in 1986 are shown below.

Classification	Ratio
1. Producing mines, standing timber	32%
2. Telecommunications property, gas, electric and water utilities, pipelines	32%
3. Commercial and industrial property	25%
4. Agricultural and vacant land	16%
5. Owner-occupied residential property	10%
6. Rental residential property	16%
7. Railroad and private rail car property, airline flight property	26%
8. Historic property	5%
9. Scenic or historic railroad	13%
10. Producing oil and gas interests	100%

A change in Class 1 and Class 2 assessment ratios in 1985 from 36% to 34% exerted upward pressure on taxes of locally assessed properties. A smaller tax base in centrally valued properties means taxing entities must charge more on the remaining properties to make up for the loss.

For each year after 1983, Class 1 and Class 2 assessment ratios are reduced by 2% of the full cash value until tax year 1990. For tax year 1990 and each year thereafter, ratios will remain at 25% of the full cash value.

Class 6 assessment ratio is lowered to 16% for 1986, 15% for 1987, and 14% of full cash value for 1988; with additional reductions of 1% per year thereafter, until 1992 when the ratio will remain at 10%.

A new class of property, Class 9, was established in 1984. Currently, only the line railroad running from the City of Williams to the Grand Canyon qualifies for this classification. Telephone and telegraph properties were renamed Telecommunications Properties.

ASSESSMENT RESPONSIBILITY

Duties of property appraisal are divided between the state and counties. The Arizona Department of Revenue appraises utilities, railroads, producing mines and other complex or geographically dispersed properties. Values determined by the Department for those properties are transmitted to the County Board of Supervisors for entry upon the county tax rolls for levy and collection of property taxes.

County Assessors, utilizing standards established by the Department, are responsible for appraisal of the other classes of property, including residential, commercial and industrial, and agricultural properties. (Refer to Tables 38 and 39.)

TAX COLLECTION AND DISTRIBUTION

Other than the two exceptions noted below, County Treasurers collect all property taxes and distribute receipts to all taxing entities. The state property tax collected by the counties is deposited in the State General Fund.

Taxes levied on airline flight property and private rail car property are collected by the Department of Revenue and deposited in the State General Fund. (Refer to Table 37.)

NUCLEAR PLAN ASSESSMENT

Beginning in 1981-82, the Department of Revenue was charged with collecting a special assessment from corporations constructing or operating commercial nuclear generating stations. The money supports development and maintenance of a state plan for off-site response to an emergency at a nuclear generating station. (Refer to Table 37.)

TABLE 37
PROPERTY TAX COLLECTIONS

FISCAL YEAR	FLIGHT PROPERTY TAX	PRIVATE RAIL CAR PROPERTY TAX	NUCLEAR PLAN ASSESSMENT
1976-77	$2,012,487	$1,277,441	$-------
1977-78	2,064,993	1,348,215	-------
1978-79	2,053,858	999,759[1]	-------
1979-80	2,507,401	536,773	-------
1980-81	5,585,255[2]	692,366	-------
1981-82	3,217,110[2]	538,855	300,000
1982-83	2,290,785	566,505	968,456
1983-84	2,782,822	626,198	573,751
1984-85	2,679,799	750,036	410,515[3]
1985-86	3,568,308	951,942	412,015

[1] Assessment ratio lowered from 60% to 36%.
[2] Tax base revised.
[3] Received in July 1985 for 84-85 fiscal year.

TABLE 38
NET ASSESSED VALUATION BY COUNTY

COUNTY	1984 LIMITED VALUE (PRIMARY)	1984 FULL CASH VALUE (SECONDARY)	1985 LIMITED VALUE (PRIMARY)	1985 FULL CASH VALUE (SECONDARY)	1986 LIMITED VALUE (PRIMARY)	1986 FULL CASH VALUE (SECONDARY)
Apache	$ 260,495,930	$ 273,011,376	$ 327,765,943	$ 343,021,227	$ 426,252,634	$ 436,911,552
Cochise	271,926,287	298,838,090	287,851,703	316,899,408	305,729,868	328,880,734
Coconino	410,777,050	454,781,801	435,914,388	488,397,148	453,816,848	493,621,234
Gila	167,462,629	179,666,603	171,401,929	183,838,687	172,831,685	182,051,258
Graham	53,509,053	56,899,769	56,787,986	60,659,699	57,994,883	60,489,388
Greenlee	73,759,778	74,227,191	60,946,382	61,450,872	67,218,882	67,611,376
La Paz	61,263,765	67,714,256	64,079,431	69,633,102	74,483,163	80,035,932
Maricopa	7,049,314,232	7,921,268,019	8,073,816,168	9,038,215,631	9,752,363,542	10,963,593,442
Mohave	303,074,067	333,708,032	341,962,406	377,703,340	370,195,057	403,812,003
Navajo	454,286,083	478,444,042	460,497,182	497,168,042	477,041,575	516,747,544
Pima	2,067,021,180	2,324,225,207	2,305,320,800	2,565,591,138	2,530,982,778	2,841,072,424
Pinal	297,514,210	322,358,649	321,977,770	345,496,357	355,363,419	381,367,533
Santa Cruz	76,803,885	90,007,199	88,379,658	103,816,031	91,804,051	103,765,999
Yavapai	334,935,941	382,954,140	389,168,016	447,991,805	428,728,610	474,426,903
Yuma	252,512,160	271,026,878	274,591,868	289,814,127	295,616,113	307,550,759
TOTAL	$12,134,656,250	$13,529,131,252	$13,660,461,630	$15,189,696,614	$15,860,423,108	$17,641,938,081

TABLE 39
PROPERTY ASSESSMENT RESPONSIBILITY
1986

COUNTY	LIMITED NET ASSESSED VALUES				FULL CASH NET ASSESSED VALUES			
	DEPARTMENT-VALUED		ASSESSOR-VALUED		DEPARTMENT-VALUED		ASSESSOR-VALUED	
	AMOUNT	% OF COUNTY	AMOUNT	% OF COUNTY	AMOUNT	% OF COUNTY	AMOUNT	% OF COUNTY
Apache	$ 366,626,475	86.01%	$ 59,626,159	13.99%	$ 367,028,772	84.01%	$ 69,882,780	15.99%
Cochise	108,723,074	35.56%	197,006,794	64.44%	109,271,273	33.23%	219,609,461	66.77%
Coconino	183,272,560	40.38%	270,544,288	59.62%	184,540,672	37.39%	309,080,562	62.61%
Gila	48,050,525	27.81%	124,781,160	72.19%	48,163,831	26.46%	133,887,427	73.54%
Graham	8,690,219	14.98%	49,304,664	85.02%	8,930,827	14.76%	51,558,561	85.24%
Greenlee	52,269,819	77.76%	14,949,063	22.24%	52,376,601	77.47%	15,234,775	22.53%
La Paz	1,765,976,208	18.11%	7,986,387,334	81.19%	1,767,225,388	16.12%	9,196,368,054	83.88%
Maricopa	75,985,205	20.53%	294,209,852	79.47%	76,705,190	19.00%	327,106,813	81.00%
Mohave	291,646,122	61.14%	185,395,453	38.86%	292,617,967	56.63%	224,129,577	43.37%
Navajo	339,587,591	13.42%	2,191,395,187	86.58%	343,703,155	12.10%	2,497,369,269	87.90%
Pima	111,577,027	31.40%	243,786,392	68.60%	112,201,659	29.42%	269,165,874	70.58%
Pinal	13,271,054	14.46%	78,532,997	85.54%	14,142,040	13.63%	89,623,959	86.37%
Santa Cruz	88,365,406	20.61%	340,363,204	79.39%	90,255,427	19.02%	384,171,476	80.98%
Yavapai	57,277,200	19.38%	238,338,913	80.62%	58,174,018	18.92%	249,376,741	81.08%
Yuma	31,921,794	42.86%	42,561,369	57.14%	32,527,931	40.64%	47,508,001	59.36%
TOTAL	$3,543,240,279	22.34%	$12,317,182,829	77.66%	$3,557,864,751	20.17%	$14,084,073,330	79.83%

TABLE 40
AVERAGE PROPERTY TAX RATES

	1983		1984		1985		1986	
	PRIMARY	SECONDARY	PRIMARY	SECONDARY	PRIMARY	SECONDARY	PRIMARY	SECONDARY
School Districts[1]	$3.60	$ .83	$3.79	$ .88	$3.94	$1.12	3.98	1.28
Counties	2.10	.32	2.08	.27[2]	2.04	.29[1]	2.03	.35
State	.75	---	.40	---	.40		.38	---
Cities	.37	.31	.35	.36	.32	.38	.31	.41
Community Colleges	.79	.CO	.80	.00	.74	.06	.69	.05
Special Districts	---	.47	---	.54[2]	---	.57	---	.57
TOTAL	$7.61	$1.93	$7.40	$2.06	$7.44	$2.42	$7.39	$2.66

[1] School district rate includes unorganized school districts.
[2] 1984 county flood control levies of $11,802,968 previously reported as county were reclassified as special districts.

Figures may not add to totals due to rounding.

TABLE 41
SUMMARY OF PRIMARY TAX LEVIES
FOR 1985-86

COUNTY	NET ASSESSED VALUATION	STATE	COUNTY	CITIES AND TOWNS	COMMUNITY COLLEGES	SCHOOLS	UNORGANIZED SCHOOL DIST.	TOTAL LEVIES
Apache	$ 426,252,634	$ 1,619,760	$ 2,750,608	$ - 0 -	$ - 0 -	$ 8,380,510	$ - 0 -	$ 12,750,878
Cochise	305,729,868	1,161,773	9,956,323	711,500	4,577,868	10,743,002	- 0 -	27,150,466
Coconino	453,816,848	1,724,504	4,269,084	1,181,127	- 0 -	16,394,638	- 0 -	23,569,353
Gila	172,831,685	656,760	8,294,352	857,321	- 0 -	8,559,504	- 0 -	18,367,937
Graham	57,994,883	220,381	1,390,543	99,006	786,179	1,494,070	- 0 -	3,990,179
Greenlee	67,218,882	255,432	508,712	4,825	- 0 -	2,396,270	- 0 -	3,165,239
La Paz	74,483,163	283,036	1,865,581	- 0 -	1,081,726	2,227,432	- 0 -	5,457,775
Maricopa	9,752,363,542	37,058,981	140,945,425	38,082,340	64,252,038	375,642,276	- 0 -	655,981,060
Mohave	370,195,057	1,406,741	9,341,898	1,129,080	3,656,151	16,442,359	- 0 -	31,976,229
Navajo	477,041,575	1,812,757	4,086,361	183,418	2,802,200	10,845,507	- 0 -	19,730,243
Pima	2,530,982,778	9,617,735	97,890,915	3,641,009	16,950,000	121,545,308	- 0 -	249,644,967
Pinal	355,363,419	1,350,381	18,505,463	1,024,028	5,584,180	14,263,265	- 0 -	40,727,317
Santa Cruz	91,804,051	348,855	3,269,418	- 0 -	- 0 -	3,737,812	- 0 -	7,356,085
Yavapai	428,728,610	1,629,169	11,715,643	621,084	5,324,217	22,524,135	- 0 -	41,814,248
Yuma	295,616,113	1,123,341	7,158,475	2,000,000	4,293,255	15,251,951	- 0 -	29,827,022
TOTAL	$15,860,423,108	$60,269,606	$321,948,801	$49,534,738	$109,307,814	630,448,039	$- 0 -	$1,171,508,998
Percent of Total Levies		5.14%	27.48%	4.23%	9.33%	53.82%	0.00	100.00%

Average Primary Tax Rate: $7.39

TABLE 42
SUMMARY OF SECONDARY TAX LEVIES
FOR 1985-86

COUNTY	NET ASSESSED VALUATION	COUNTY	CITIES AND TOWNS	COMMUNITY COLLEGES	SCHOOLS	ALL OTHER	UNORGANIZED SCHOOL DIST.	TOTAL LEVIES
Apache	$ 436,911,552	$ 999,217	$ - 0 -	$ - 0 -	$ 5,422,512	$ 340,212	$ - 0 -	$ 6,761,941
Cochise	328,880,734	1,770,409	6,000	- 0 -	4,170,363	2,079,444	- 0 -	8,026,216
Coconino	493,621,234	500,007	878,672	- 0 -	6,113,836	2,170,899	- 0 -	9,663,414
Gila	182,051,258	332,687	26,033	- 0 -	2,200,140	633,516	- 0 -	3,192,376
Graham	60,489,388	- 0 -	- 0 -	86,258	1,620,844	150,892	- 0 -	1,857,994
Greenlee	67,611,376	- 0 -	- 0 -	- 0 -	1,419,008	21,817	- 0 -	1,440,825
La Paz	80,035,932	76,714	- 0 -	- 0 -	575,500	600,493	- 0 -	1,252,707
Maricopa	10,963,593,442	24,299,043	59,675,455	8,936,900	135,504,896	59,106,632	- 0 -	287,522,926
Mohave	403,812,003	2,294,351	512,076	- 0 -	2,782,503	5,188,340	- 0 -	10,777,270
Navajo	516,747,544	161,150	50,100	- 0 -	11,422,251	2,776,881	- 0 -	14,410,382
Pima	2,841,072,424	29,592,318	10,236,810	- 0 -	37,999,432	18,637,241	- 0 -	96,465,801
Pinal	381,367,533	280,827	66,150	273,644	6,162,830	3,023,100	- 0 -	9,806,551
Santa Cruz	103,765,999	48,147	- 0 -	- 0 -	1,626,508	923,002	- 0 -	2,597,657
Yavapai	474,426,903	113,000	675,020	- 0 -	4,001,262	4,664,090	- 0 -	9,453,372
Yuma	307,550,759	1,267,045	263,411	- 0 -	4,062,811	1,219,388	- 0 -	6,812,655
TOTAL	$17,641,938,081	$61,734,915	$72,389,727	$9,296,802	$225,084,696	$101,535,947	$ - 0 -	$470,042,087
Percent of Total Levies		13.13%	15.40%	1.98%	47.89%	21.60%	0%	100.00%

Average Secondary Tax Rate: $2.66

LAW CHAP./BILL NO. GENERAL ADMINISTRATION

Ch. 93 H.B. 2481 **Department of Revenue appropriation; litigation.**
Provides the necessary appropriation to fund expert witnesses, research and associated costs to defend property tax litigation with Southern Pacific Transportation Co. At issue is $3.8 million in actual tax dollars and $154 million in property value. Emergency effective date of April 17, 1986.

Ch. 151 H.B. 2308 **Sales tax distribution; census revisions.**
Provides for Revenue to use certified U.S. Census Bureau population figures for annexations and census revisions to be included in distribution of transaction privilege tax revenues among cities and towns. Effective August 13, 1986.

Ch. 177 S.B. 1159 **Emergency telecommunications tax levy.**
Limits the tax levied to finance emergency telecommunications services to an amount not to exceed 1.5% of the amount charged by a provider for exchange access services. There is also a provision which allows the Joint Legislative Tax Committee to establish one tax rate, subject to the one-half of one percent limitation, to be levied from July 1, 1986 through February 28, 1987, and a different rate, subject to the one and one-half percent limitation, to be levied from March 1, 1987 through June 30, 1987. Various effective dates.

Ch. 335 S.B. 1270 **Probate property; sale; hearing; notice. (Now: tax protest resolution fund.)**
This bill transfers monies credited to the Tax Protest Fund prior to June 30, 1986 to the newly created Tax Protest Resolution Fund. Monies will be held until final resolution of protested tax revenues. Monies paid under protest after June 30, 1986 will be credited to the Tax Refund Fund created by Chapter 366, Laws of 1985. Emergency effective date of May 9, 1986.

Ch. 351 H.B. 2453 **County jail secondary property tax. (Now: cities and towns; census choice.)**
A city or town may request the use of the 1980 decennial census in lieu of the special census to apportion highway user fund or sales tax revenues. The city or town must formally request the census choice prior to January 1, 1987. Effective August 13, 1986.

Ch. 401 H.B. 2181 **Department of Revenue; continuation.**
This law continues the Department of Revenue until January 1, 1997. Also requires the Auditor General to conduct a performance audit of Taxpayer Services and Collections Divisions and present the findings to the Legislature and Governor by June 30, 1988. Effective retroactively to June 30, 1986.

LAW CHAP./BILL NO.

Ch. 402 S.B. 1030 **Taxpayer's bill of rights.**
- Establishes the "Arizona Taxpayer Assistance Office" in the Department. This office would incorporate functions currently being handled by the Ombudsman Office personnel.
- Requires abatement of penalties directly attributable to erroneous written advice by Department employees under specific circumstances.
- Requires each employee providing oral advice to any person to state that the Department is not bound by the oral advice given.
- Taxpayer deficiency interviews would, under taxpayer's request, be conducted at the taxpayer's business office or the Department office closest to the residence of a taxpayer at a reasonable time. A taxpayer may record the interview.
- A Department employee may record an interview by informing a taxpayer of the recording before the interview begins. We must provide a transcript if the taxpayer pays for a copy.
- Prior to interviewing a taxpayer our employees must provide a statement as to taxpayer rights and the appeals process. Effective August 13, 1986.

SALES TAX

Ch. 38 H.B. 2066 **County hotel tax.**
New legislation which provides for an unincorporated area county hotel tax at 1% on establishments not situated inside municipal boundaries. The law contains population restrictions which would currently allow only Pima County to take advantage of the tax. Requires county board of supervisor action. Money obtained from the tax is dedicated to promoting tourism in that county. Effective July 1, 1986.

Ch. 50 H.B. 2127 **Newspaper supplements; use tax exemption (NOW: transaction privilege and use taxes.)**
Provides a use tax exemption for advertising supplements sold with newspapers published in Arizona; advertising supplements originating outside of Arizona will also share this use tax exemption. Effective August 13, 1986.

Ch. 111 H.B. 2009 **Sales tax transient licensing.**
This bill was requested by the Department of Revenue to provide clear statutory authority to require transient businesses not regularly engaged in business in Arizona to license and pay sales taxes to the state. Target areas include the state and county fairs and other activities such as street fairs. This law provides the Department the ability to accelerate payment date of taxes before the regular statutory due date. Effective August 13, 1986.

LAW CHAP./BILL NO.

Ch. 135 H.B. 2179 **Sales tax license fee increase.**
Effective August 13, 1986. The sales tax license fee was increased from $5.00 to $12.00 to cover the administrative costs of issuing a license to a new or reissue taxpayer.

Ch. 152 H.B. 2313 **Nonprofit organizations; sales tax exemption.**
This new law extends the sales tax exemption on food sales to certain qualified nonprofit organizations. These organizations must be qualified under the Internal Revenue Code, Sec. 501, to be eligible and must also not engage regularly in restaurant business activities. Effective August 13, 1986.

Ch. 211 S.B. 1163 **Airports; public purpose, technical correction (NOW: vehicle transfer tax; repeal).**
Repeals the 4 percent tax on title transfer of any vehicle, boat or plane between private parties. Effective November 1, 1986.

Ch. 288 H.B. 2061 **Transportation excise tax; contractor exception.**
This legislation extends the exemption from the sales tax on certain contracts entered into by prime contractors from the transportation excise tax. These contracts must not contain a tax increase pass-through clause and must have been entered into prior to the public election which authorized the imposition of the tax. Primarily our experience has shown these contracts are limited in number. Prequalification by the Department is required to take advantage of the exemption. Effective retroactively to midnight December 31, 1985.

Ch. 361 S.B. 1167 **Telecommunications service assistance; tax credit.**
The establishment of the credit against the transaction privilege tax for telecommunications companies providing special assistance is similar in this bill and in S.B. 1168 for electric and gas companies. Revenue's role is to allow the credit on the tax forms and monitor the credit under proper payment procedures. Each fiscal year DOR will report the credit taken to the legislature and DES. The credit amounts will be calculated as part of revenues for the Constitutional appropriation limitation. The delayed effective date of July 1, 1987 to June 30, 1989 will allow for qualification of telecommunication customers by DES and telecommunication companies.

Ch. 362 S.B. 1168 **Tax credit; electric rate assistance.**
This bill establishes a credit against transaction privilege taxes for electric and gas companies providing service to certain customers qualified by DES. This bill is similar to Ch. 361 S.B. 1168 in administration and qualification requirements. Delayed effective date of July 1, 1987, expiring June 30, 1989.

LAW CHAP./BILL NO.

Ch. 371 H.B. 2460 **Arizona geological survey; state geologist (NOW: transaction privilege and use taxes.)**
Amends state transaction privilege tax and use tax codes to provide a specific tax exemption on purchases of expendable materials used directly in the production process of semiconductor products; purchases of new or used spare or replacement parts with a useful-life less than one year are not tax-exempt. Clarifies taxation of nuclear fuel. Effective August 13, 1986.

INCOME AND WITHHOLDING TAX

Ch. 56 S.B. 1020 **Voluntary withholding; estimated tax; setoff. (Now: voluntary withholding.)**
Arizona does not currently have an agreement with the federal government to provide for withholding on payments received under the United States Civil Service Retirement and Disability Fund. This legislation clearly states Arizona's intent to press negotiations with the federal government to allow Arizona residents to utilize withholding on retirement and disability payments. Effective August 13, 1986.

Ch. 59 S.B. 1033 **Corporate federal income tax deduction (NOW: corporate federal income tax deduction; study).**
Requires DOR to determine necessary corporate income tax rates to eliminate the corporate federal income tax deduction while maintaining approximately equivalent revenues from currently collected corporate taxes. Findings will be reported to the Governor, President of the Senate and Speaker of the House of Representatives by November 15, 1986.

Ch. 60 S.B. 1036 **Internal revenue code; conform definition.**
Each year the Department analyzes changes at the federal level in the Code and their flow-through impacts or direct impacts upon Arizona. No significant changes were made in 1985 at the federal level. However, housekeeping legislation was passed to update the statutory citation date from January 1, 1985 to January 1, 1986.

Ch. 105 S.B. 1256 **Income tax deductions for nonresidents.**
This change brings Arizona into conformity with most other states in allowing deductions on Arizona income to be prorated to the total income claimed by a nonresident. Effective tax years beginning on or after January 1, 1986.

Ch. 170 S.B. 2316 **Child care amortization; joint owners.**
This bill would expand the election under Arizona's income tax laws for the expenses of acquiring, construction, renovating or remodeling a child care facility operated to benefit children of the employees of a taxpayer. The amortization subtraction would be prorated among joint owners up to the same subtraction amount as would be allowed a single owner. Effective August 13, 1986.

LAW CHAP./BILL NO.

Ch. 393 H.B. 2397 **Cities and towns; census choice. (Now: property taxes; earned credit; definitions.)**
The definition of "income" for purposes of claiming the earned credit for property taxes, or the PTC, has been amended to include retirement benefits received from the state or any of it's political subdivisions, federal retirement benefits and private pensions or annuity payments. The definition does not include cash public assistance and relief payments, railroad retirement benefits, social security benefits, Arizona unemployment insurance payments, veterans disability insurance and nongovernmental gifts, surplus foods or other relief provided by a governmental agency. This definition becomes effective for taxable years beginning from and after December 31, 1985.

LUXURY TAX

Ch. 106 S.B. 1260 **Cannabis, controlled substances; tax; allocation.**
Provides for reallocation of monies collected on taxing cannabis and controlled substances when there is a seizure of unstamped, untaxed goods by a law enforcement agency. Reallocated includes the agency or department of state, city or county involved in the seizure and the county attorney's office if the case is prosecuted. The bill encourages investigation, prosecution, and seizure of illegal substances. Effective August 13, 1986.

ESTATE TAX

Ch. 90 S.B. 1287 **Deposits held by utility; abandonment.**
Legislation would shorten the period of unclaimed deposits held by utilities from seven to two years. The Department of Revenue would place these deposits into the unclaimed property program and attempt to locate the owners. This bill will increase the return to owners since ability to locate owners will be enhanced by a shorter holding period. Effective August 13, 1986.

Ch. 118. H.B. 2062 **Property recovery agreement.**
This DOR requested bill limits the amount of unclaimed property and escheated estates which can be paid to search companies and private investigators when heirs or owners are located. The bill provides that a written, signed agreement to pay for the recovery or for assistance in the recovery, of escheated property is unenforceable if the payment agreed on for the assistance is more than 30 percent of the value of the property. The bill also provides that an agreement to pay for recovery, or assistance in the recovery of abandoned property is valid if the fee agreed on

does not exceed 30 percent of the value of the recoverable property. An owner may still, however, assert that an agreement to recover property is based on excessive or unjust consideration. The bill has no effect upon an agreement entered into prior to the bill's effective date. Effective August 13, 1986.

BINGO

Ch. 110 H.B. 2008 **Bingo license location transfers.**
Under this law a bingo licensee may not transfer the license to a new location unless the local governing body gives prior written approval after a public hearing. In the event that the licensing change is approved, the licensee shall send the necessary approval document from the local governing body along with the existing bingo license to the licensing authority, which is DOR. The Department shall then issue a license identifying the new location, at which point the transfer will become effective. The bill also provides that DOR will not issue more than one license to a qualified organization. Emergency effective date April 18, 1986.

Ch. 410 S.B. 2098 **Lottery games; frequency. (Now: bingo games; license suspension, revocation.)**
Changes small game bingo games as follows:
- redefines small game bingo;
- removes the requirement that no person may act as a caller or assistant to the caller unless he is of good moral character and has never been convicted of a felony;
- provides that a bingo operator may provide braille cards to blind persons or allow them to bring their own braille cards;
- reduces the frequency with which licensees must report their receipts and expenses from quarterly to annually;
- removes restrictions for which expenses may be incurred;
- provides for the suspension or revocation of a bingo license for violation of the small bingo game laws.

These provisions are effective from and after December 31, 1986.

PROPERTY TAX

Ch. 76 S.B. 1176 **Property tax; representation of taxpayer.**
Allows a person who owns, controls or possesses locally assessed property to designate an agent to act on his behalf on valuation matters before the county assessor and county board of equalization. The actual implementation of the legislation as to procedures and forms will be handled by the county assessors. Effective date August 13, 1986.

LAW CHAP./BILL NO.

Ch. 109 S.B. 1375 **Personal property; tax exemption. (Now: personal property tax; elimination; study.)**
Establishes two commissions to advise and study personal property taxation in Arizona. Interim report due December 31, 1986, and a final report is due December 31, 1987.

Ch. 133 H.B. 2176 **Cooperative utility property valuation.**
This legislation removes rural member-owned electrical cooperatives from the formula method of valuation contained in statute, replacing it with valuation by standard appraisal methods and techniques. Property value may differ somewhat from current statutory formula. Effective for property tax year 1986.

Ch. 199 H.B. 2332 **Department of Revenue equalization procedures.**
This bill establishes a new property tax equalization authority in Revenue and removes such authority from the State Board of Tax Appeals. DOR would biennially examine and compare property valuations in the state, and if inequities are located, the authority to equalize such properties would rest with Revenue. An order would be issued no later than May 1st for the following tax year and would be subject to review and appeal to the Board of Tax Appeals by a county assessor or affected taxpayer. The bill provides a specific appeal process in law for all parties. Effective August 13, 1986.

Ch. 216 S.B. 1239 **Class five property; penalty.**
This bill amends property tax laws to provide that a natural or adopted sibling of a home-owner living in a residence would allow a Class 5 status for the residence. Secondly, a provision to allow a further appeal of a taxpayer to the county board of supervisors on the improper classification of a residence as Class 6 or rental residential.

Ch. 222 S.B. 1298 **Department of Revenue; sales ratio studies.**
This bill requires the Department to perform and issue the results of ratio studies using sales or appraisal data according to standard statistical principles applicable to those studies. If valuation discrepancies are disclosed by the studies, the Department could request that the assessors conduct field appraisals in accordance with methods adopted by the Department. Property valuations may be adjusted based upon the results of the county assessor's field appraisals. Commercial and industrial Class 3 properties must have equalization orders based on other standard appraisal evidence in addition to sales ratio studies. Effective August 13, 1986.

LAW CHAP./BILL NO.

Ch. 243 S.B. 1041 **Tax valuation; rolling stock; utilities.**
Long distance telecommunication properties currently are included in Class 2 at a 32% assessment ratio, and under this bill would shift to a 25% ratio in Class 3. Section 3 contains specific language proposed by the Department to provide guidance to the valuation method. This bill would be retroactive for the 1986 property tax year and would be administratively initiated even though the emergency clause was not enacted. The property tax valuation calendar predisposes this process to prevent confusion. Effective August 13, 1986.

Ch. 290 H.B. 2312 **Special district annual reports.**
Establishes stricter compliance requirements on special districts for purposes of annual reports, districts boundaries, taxation and budgeting. Auditor General primary agency involved. Allows taxpayer appeal of non-compliance by a special district with costs recovered if upheld by court. Repeals moratorium on special fire districts. Session laws provide guidance on first filings by districts, development of form by Auditor General and report dates. Needed to address failure of special districts to comply with existing annual reporting. Without bill, revenue estimates, tax levy data and other functions cannot be properly performed. Effective May 5, 1986.

Ch. 291 H.B. 2354 **County tax for fire districts. (Now: county assistance tax for fire districts.)**
Provides for a separate fire district tax levy of 10¢ per hundred dollars of assessed valuation to replace the existing formula. Establishes formula to proportionally distribute tax levy revenues among all fire districts. Establishes tax assistance budget base to provide controlled growth which is recomputed every five years. Contains session law interim administration and effective date of fiscal years beginning after June 30, 1987.

Ch. 322 H.B. 2117 **Community college reimbursement levy.**
Community college reimbursement by a specified percentage of current expenditure limits levy. Allows the board of a community college district to exceed expenditure limits with voter approval. Eliminates two existing provisions regarding a community college reimbursement levy: the restriction that the reimbursement levy could only be authorized for a period of not less than two years or more than seven years; the requirement that the county must adjust its primary property tax levy limit to reflect tax money previously used to fund community college tuition. Effective August 13, 1986.

Ch. 342 H.B. 2093 **Qualifying assessments; property tax exemptions.**
Provides an increase in the dollar amounts of tax exemptions for veterans, widows, widowers and disabled persons allowed under the Constitution for property tax purposes. However, the definition of income for purposes of claiming the property tax exemptions has

been expanded to include the Arizona adjusted gross income, plus capital gains excluded from the adjusted gross income, nontaxable strike benefits, nontaxable interest from the federal government, state or political subdivision retirement payments, most federal retirement payments, and the gross amount of any pension or annuity not otherwise exempted. Income exemptions were defined to include cash public assistance and relief, railroad and social security retirement benefits, Arizona unemployment insurance payments, veterans disability, workers compensation and loss of time insurance payments and nongovernmental gifts or surplus food or other governmental relief. The emergency effective date allowed application to the 1986 property tax year.

Ch. 353 H.B. 2475 **Rio Salado; taxing and bonding.**
Provides that a water-oriented development district may be organized and have the authority to levy taxes and issue bonds subject to voter approval. Effective August 13, 1986, the district will have the authority to establish terms and conditions for acquiring single family dwellings. A special county election may be held in October or November of 1987 or 1988 at the request of the water district board of directors, to determine the approval of tax levy and bond issuance by the district; a public hearing must be held upon tax levy authorization. The board of supervisors will then levy and collect a secondary tax not to exceed 25 cents per $100 of assessed valuation. Provides for appropriations of $325,000 to the Rio Salado Development District and $88,890 for relocation assistance to people affected by Rio Salado projects. JLBC shall review all development district expenditures. These monies are exempt from lapsing of appropriations.

Ch. 357 H.B. 2001 **County assessment district petition.**
Under H.B. 2001, the county board of supervisors can accept a proposed assessment for a county improvement district if it is found by the district to be a matter of public health, welfare and safety and it is shown that a reasonable effort has been made to contact absentee owners by first class mail. The petition will have to be signed by a majority of residents and responding absentee owners representing a majority of the property involved in the assessment or within the district. Mailed petitions shall provide for acceptance or rejection by the owner and shall state that only returned petitions will be counted. Absentee owners contacted by first class mail will have 30 days from the postmark date to return petitions. The maximum amount of the proposed assessment under these petitions cannot exceed $1.50 per $100 of assessed valuation. This bill had been proposed to alleviate the problem of out-of-state property owners failing to respond to these petitions. Emergency effective date of May 12, 1986.

LAW CHAP./BILL NO.

Ch. 366 H.B. 2372 **Public safety dispatcher certification. (Now: county free library districts.)**
This law provides for the establishment and maintenance of county free library districts. Cities and towns may elect to join or withdraw from a district. The county board of supervisors shall be the board of directors of the library district. Secondary property taxes may be levied for the operation of the districts and bonding may be implemented as required for the purchase of land and buildings for libraries. Emergency effective date of May 13, 1986.

Ch. 369 H.B. 2319 **State aviation fund; revenues; source.**
Transfers airline flight property taxes to the state aviation fund from the general fund beginning in 1987 at 33% and increasing to 100% in 1989. Effective August 13, 1986.

Ch. 377 S.B. 1288 **Possessory interests; tax exemption; limitation. (Now: state property tax rates.)**
This bill places the 1986 state property tax rates into session law. The state general property tax rate is set at 38 cents and the state education property tax rate is set at zero. Effective only for tax year 1986.

Ch. 390 H.B. 2367 **Taxing districts; boundary addition. (Now: creating special districts; fire districts.)**
Establishes a new article in Title 48 devoted to the creation of special taxing districts, boundary changes and procedures, as well as various effective dates.

Ch. 395 H.B. 2454 **County levy limit override.**
Amends Title 42 in setting a specific process to allow a county board of supervisors to seek an override of the levy limits through voter approval. This law also provides specific provisions of law as county responsibilities. Effective August 13, 1986 for property tax year 1987 and forward.

Ch. 419 H.B. 2439 **Rental tax; assessment; credit.**
By amending the property tax valuation statutes, Class 6 properties (residential rentals) would continue to decline from a ratio of 16% for 1986 to 10% in 1992. A second major provision of the bill extends the rental property tax credit for individual income taxation another four years through 1991. The amount of the maximum credit allowed declines from $100 in 1988 to $40 in 1991. Previously, the credit would have expired in 1987. Approximately $60.65 million in credits will be claimed from 1988 to 1991. Section 3 of the bill addresses a narrow issue of tax roll correction in session law. Various effective and retroactive dates.